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ABSTRACT

In 1997, Kentucky initiated a comprehensive review and overhaul of its postsecondary education system to meet the economic and educational needs of its citizens more effectively. This study was commissioned to address issues related to the states under use of its independent institutions of higher education to achieve educational reform goals. The study concentrated on opportunities for the Commonwealth of Kentucky to partner with and better use the states network of 19 nonprofit regionally accredited colleges and universities that are members of the Association of Independent Kentucky Colleges and Universities (AIKCU) , opportunities for these institutions to strengthen their programs and services, and opportunities to strengthen and support the AIKCU. Data sources included 33 interviews with leaders of independent colleges and universities, a survey of similar associations in other states, an analysis of statistical data, and a review of pertinent documents. Findings made it evident that Kentucky's independent institutions of higher education are a valuable resource to the state and its citizens that offer a highly cost effective way to help the state accomplish its postsecondary education goals. The key recommendations of this report will help Kentucky use the independent sector more effectively to achieve educational reform goals. Six appendixes contain interview guides, the telephone survey, a policy summary, and some information about funding, public support, and degrees awarded. (Contains 37 exhibits.) (SLD)

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THE ROLE AND EFFECTIVENESS OF THE INDEPENDENT COLLEGES AND UNIVERSITIES IN KENTUCKY

FINAL REPORT

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THE ROLE AND EFFECTIVENESS OF THE INDEPENDENT COLLEGES AND UNIVERSITIES IN KENTUCKY

FINAL REPORT

SUBMITTED TO:

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MAY 23, 2001

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EXECUTIVE SUMMARY

EXECUTIVE SUMMARY

Independent colleges and universities play a critically important role in the education of students across the nation and in Kentucky. However, the environment in which these institutions operate is changing, and the pace of change has accelerated dramatically in recent years. Across the country, small independent colleges and universities face an increasingly competitive environment for students and for private funding. Rising costs in the areas of technology, utilities, student aid, and student services add to financial pressure on the institutions. In Kentucky, these issues are compounded by a tradition of the state not utilizing independent institutions, as well as unintended consequences of sweeping postsecondary reform initiatives passed in 1997.

Under the leadership of Governor Paul E. Patton and the General Assembly, the Commonwealth initiated a comprehensive review and overhaul of its postsecondary education system to meet the economic and educational needs of its citizens more effectively. This period of state priority and focus on postsecondary education is unequivocally positive. However, as implementation of the reform effort has evolved, it fundamentally has focused on the public postsecondary education system. As a result, the resources of the independent higher education community in Kentucky are not being utilized to their full potential in helping the Commonwealth achieve stated goals.

Kentucky's legislative and executive leaders clearly value the role independent colleges and universities play in the state's postsecondary delivery system. However, there is a lack of understanding about the role and contributions of independent higher education and ways these colleges and universities can be incorporated effectively into the state's postsecondary delivery system. Therefore, it is incumbent on the

independent college and university community to offer positive solutions to these leaders and other interested parties. The current level of attention and support for postsecondary education will not last indefinitely. If postsecondary education policy is to become more inclusive, and if independent colleges and universities are to be considered full partners in helping achieve the state's education goals, that process must begin now.

This study was commissioned to address these and related issues and to make positive, achievable recommendations. The goal is to enhance the state's ability to achieve postsecondary education goals by strengthening independent campuses and by offering ways that the state can more effectively utilize the Commonwealth's independent college and university resources to achieve reform goals. The study concentrates most heavily on:

- Opportunities for the Commonwealth to partner with and better utilize the state's network of 19 non-profit, regionally accredited colleges and universities that make up the Association of Independent Kentucky Colleges and Universities (AIKCU);
- Opportunities for the AIKCU colleges and universities to strengthen their programs and services in order to better serve the interests of the Commonwealth; and
- Opportunities for AIKCU, as an Association, to support and help the state's independent colleges and universities to better serve the interests of the Commonwealth.

The primary sources of information for the study included interviews with independent college and university leaders and state higher education policymakers (33); a survey of independent college and university associations in other states (18); an analysis of statistical data; a review of Commonwealth reports and policy documents; and a review of higher education and organizational literature.

The following is a synopsis of the key study findings and recommendations. It is intended to provide a brief summary of the study in its entirety. However, the reader is strongly encouraged to review the full report for a more complete discussion of these and other important topics.

The Importance of Education to Kentucky's Economy

Education is a vital economic resource in today's high technology, science, and knowledge-based economy. However, Kentucky's collective (public and independent) postsecondary education system continues to lag behind other states in the rate at which it is enrolling and graduating students, especially at the baccalaureate level. If Kentucky is to fully achieve the goals of its ambitious reform agenda, it must reach out aggressively to all of its postsecondary providers, public and independent, with innovative policies to encourage growth and improve quality and efficiency.

Contributions of Independent Kentucky Colleges and Universities

The Association of Independent Kentucky Colleges and Universities (AIKCU) is the only statewide organization that exclusively serves independent higher education in the Commonwealth. Although Kentucky has more than 40 two- and four-year non-public institutions, only 20 are regionally accredited, not-for-profit independent institutions. Nineteen of these 20 eligible institutions are members of AIKCU. As key providers of undergraduate education, AIKCU institutions serve the needs and interests of the state through the following contributions: geographical access to established programs and facilities; proximity and service to areas and populations that have been designated as underserved; and strong records of student retention and degree completion. Additionally, the AIKCU institutions directly benefit the state through:

- Production of professional workers for Kentucky – AIKCU institutions serve the state's needs by conferring a significant proportion of the Commonwealth's degrees in high need academic program areas such as teacher education, nursing, biology, chemistry, physics, and mathematics.

- Local government and community partnerships – A number of the AIKCU institutions have developed initiatives for nontraditional and working students. Many are also engaged in partnerships and contractual relationships that serve governmental purposes and benefit local communities.

- Impact on state and local economies – In total, the AIKCU institutions employ an estimated 5,000 individuals, and, with combined annual revenues of $500 million, they contribute an estimated $1.75 billion per year to the state economy.

- Taxpayer savings – The education of undergraduate students in the independent sector translates into savings of almost $100 million per year for the Commonwealth's taxpayers. This figure represents educational subsidies alone, and does not include additional capital expenditures necessary to accommodate the added educational responsibilities if independent sector students were to be absorbed into the public sector.

It takes a strong public sector and a strong independent sector working in concert to provide a quality statewide system of higher education. The AIKCU institutions are a vital part of that overall system.

The Role of Independent Institutions in Other States

Independent institutions are major contributors to postsecondary education in the nation, enrolling 23 percent of all postsecondary students in the United States. An analysis of key characteristics by state indicates:

- States with large enrollments in independent institutions generally spend fewer state taxpayer dollars per degree granted.

- For each 1 percent increase in the percentage of postsecondary enrollments in independent institutions, the states, as a whole, have experienced an annual average savings of state tax dollars of almost $17.2 million per state.

- Those states with greater enrollments in independent institutions, in general, have much higher degree production rates.

In comparing Kentucky to selected states with high economic attainment, the comparison states produce more degrees per 100,000 target age population, annually pay fewer taxpayer dollars per degree granted at the bachelor's and above levels, and make significantly greater use of their independent institutions in enrolling postsecondary students.

A survey of 18 independent college and university state associations indicated that other states routinely purchase services from the independent higher education sector through student financial aid programs, academic program contracts, degree production payments or contracts, and competitive grant programs. Additionally, a number of states offer other benefits to independent institutions, including capital funding, tax-exempt bonding for capital projects, and tax incentives for private or corporate donations to higher education institutions.

The Changing Environment for Independent Higher Education in the Nation and Kentucky

The implementation of Kentucky's 1997 Postsecondary Improvement Act involved large-scale restructuring of the existing postsecondary education system to improve coordination of all institutions and to reduce the impact of regional politics on the policy process. Since the reform legislation was passed in 1997, general fund support to postsecondary education has increased 45.5 percent to $1.1 billion in fiscal year 2002. This increase does not reflect $230 million appropriated to public institutions over the past two biennia in support of "bucks for brains" and other programs that require a private funding match. Clearly, Kentucky has made a significant commitment to

improving the quality, breadth, and efficiency of public postsecondary education in the Commonwealth.

Historically, student financial aid is the only funding relationship that has existed between independent higher education and the State of Kentucky. It has been a positive relationship that has encouraged postsecondary access and choice for thousands of low- and moderate-income Kentuckians. With the implementation of the Kentucky Educational Excellence Scholarships, this partnership has expanded further to provide postsecondary funding to students based on high school performance. While student financial aid serves a critical role in expanding postsecondary access, more expansive and innovative partnerships between the state and independent higher education are necessary if these institutions are to play a meaningful role in helping the state meet its educational and economic goals. As documented throughout this report, other states have adopted public policies that encourage an expanded role for the independent sector, and they have benefited in terms of greater degree production and taxpayer savings.

The 1997 reforms laid the groundwork for the development of a strategic agenda for postsecondary education in the Commonwealth that specifies how the resources and talents of all public and independent institutions would be utilized for the achievement of statewide goals. However, an examination of the strategic agenda shows that the implementation of Kentucky's postsecondary education reforms place almost exclusive responsibility (and state funds) for achieving the state's higher education goals on the state's public institutions. Additionally, the funding program creates a significant set of incentives for the state's public institutions, which encourages and funds the public institutions to establish programs that are, in some cases, detrimental to the independent institutions. Key aspects of the environment for independent institutions include:

- Kentucky state government purchases its higher education services primarily (98 percent) from its public colleges and universities. In total, the state spends approximately $1.1 billion per year in acquiring postsecondary education services from public institutions, and only about $25 million, or less than 2 percent, in buying services from the independent institutions.

- State-funded student financial aid has played an essential role in allowing lower- and middle-income Kentucky students to attend independent institutions in the state. These policies promote access and choice in postsecondary education.

- Independent colleges and universities have faced challenges as a result of a tradition of highly subsidized, low public tuition policy in Kentucky, an intense level of competition for students, sketchy or misinformed public perceptions of independent institutions, radical changes in private donor giving practices and patterns, and the need for cost containment (particularly among institutions with modest endowments).

There is little doubt that the postsecondary environment in Kentucky is transitioning to one that supports the desired improvements in the Commonwealth's economy. However, there is early indication that the reforms are evolving in ways that are not utilizing independent higher education resources to assist the state in achieving its ambitious goals. Unfortunately, this environment (caused in part by the perception that there are constitutional prohibitions against public-private partnerships) may ultimately reduce the size and contributions of the independent sector, thereby robbing the state of a highly cost-effective part of its higher education system and depriving its citizens of critically important educational resources.

The Role of the State in Creating a More Effective, Efficient, and Competitive Independent Sector

The criteria for choosing the institutions from which the state will purchase services should not be whether an institution is public or independent, but rather which can achieve the state's goals most effectively and efficiently. Because of the differences in funding relationships, Kentucky officials cannot use the same mechanisms to

purchase higher education services from its independent institutions as it does to acquire similar services from its public institutions. In many ways, this fundamental difference is a major advantage to the state because it opens up a whole new set of partnerships that can be far more effective in meeting the state's needs. The major barrier to greater use of independent institutions to achieve Kentucky's higher education goals is political: (1) independent institutions have not been aggressive enough in pursuing these kinds of partnerships in the past; (2) state institutions have been active politically and have significant influence; and (3) concern about constitutional issues has limited potential public-private partnerships.

The Role of the Institutions in Creating a More Effective, Efficient, and Competitive Independent Sector

Kentucky's independent institutions must find ways to reduce their costs in order to remain competitive and viable institutions in the future. One of the major cost challenges that Kentucky's independent institutions face is their high per student overhead cost caused by their small sizes. Reducing overhead costs below current levels is not an easy task. Most institutions already have trimmed their costs as much as possible within current structures. Additional reductions will require finding new approaches to cost reduction and ways to increase economies of scale. Opportunities for reducing costs at independent institutions include:

- increasing the size of institutions through contracts and other partnerships with the state and other entities for additional students or services;
- establishing partnerships or collaborative arrangements with other institutions that may include joint academic programs, shared faculty, or provision of unique programs at other campuses;
- initiating mergers with other independent institutions; and

- expanding outsourcing of overhead services such as administration of finances, technology, student records, mail, and student housing.

Although not every independent institution may need to reduce overhead costs, particularly those with large endowments, most are dependent upon tuition and fee revenues and private gifts to survive. Especially during the next major economic recession, this survival will depend upon their ability to operate in a highly competitive market. In this environment, lower overhead costs can be the difference between thriving and not surviving.

The Role of the Association in Creating a More Effective, Efficient, and Competitive Independent Sector

As a result of the pervasive changes that are taking place in the postsecondary environment in Kentucky, AIKCU is undergoing an evaluation of its role in serving the 19 member institutions. The number one priority for the Association should be a focus on public policy issues, especially since this is a period of tremendous change for postsecondary education in Kentucky. Overwhelmingly and repeatedly, policymakers who were interviewed for this study asserted the need for independent college and university leaders to keep their legislators informed, to get organized and involved, and to articulate their views on important issues.

While public policy should continue to be the main focus of Association activities, AIKCU also should intensify its efforts to assist in achieving campus cost savings. Independent college and university organizations across the country increasingly are providing leadership in bringing their members together in various alliances and other cooperative arrangements that achieve economies of scale and lower overhead costs. Examples include multi-campus initiatives to consolidate back office operations, bond facilities programs, joint fundraising for scholarships and strategic initiatives, insurance

pools, utilities cooperatives, joint library database purchasing and management, and collective marketing and student recruitment activities. Increasingly, state associations are exploring revenue-generating activities to carry out association responsibilities and provide a high level of member services.

Whether dealing with the policy arena or with cost savings initiatives, independent institutions must find ways to cooperate if they are to be effective in the increasingly challenging environment documented in this study. The Association is well situated to facilitate these relationships and provide a catalyst for change.

Recommendations

Kentucky's independent institutions of postsecondary education are a valuable resource to the state and its citizens, and they offer a highly cost-effective way to help the state accomplish its laudable postsecondary education goals. Appropriate changes to bring the Commonwealth's independent institutions more fully into the "state's postsecondary education fold" will be a win-win-win for the state's economy, the state's taxpayers, and the state's students. To this end, the key study recommendations outlined in Exhibit 1 will enable the state to build upon initial efforts to utilize the independent sector more effectively and efficiently in achieving postsecondary education reform goals. (For the complete set of recommendations and related strategies, please refer to Chapter 10.) At the same time, these recommendations will enable the independent colleges and universities in Kentucky to better position their institutions and their association to assist the Commonwealth in achieving postsecondary education reform goals.

EXHIBIT 1
SUMMARY OF KEY RECOMMENDATIONS

Recommendation	Strategies
Key Recommendations to State Policymakers and Organizations	
The state's policy and political leadership should expand its recognition and inclusion of the independent college and university community. SCOPE should provide leadership in related strategies.	■ Hear from and include independent college and university community representatives in all deliberations. ■ Include independent higher education representatives in policymaking bodies. ■ Support legislation to add the AIKCU President as a non-voting ex-officio member of the Kentucky Higher Education Assistance Authority (KHEAA). ■ Aggressively support and enhance access to postsecondary institutions through financial aid (particularly need-based) programs.
The Council on Postsecondary Education (CPE) should expand its initial efforts to recognize independent higher education resources in order to make them a full participant in meeting the postsecondary education needs of the Commonwealth's citizens.	■ Establish a policy that the cost-effectiveness of independent sector contracts or partnerships will be explicitly considered in the deliberations for new institutions, centers, or programs. ■ Establish a formal plan for more effectively utilizing the services of independent institutions when those services are equal to or more cost-effective than using public institutions. ■ Invite a designated representative of independent higher education to participate at the same level as the presidents of public universities in Council meetings and activities. ■ Include consideration of the role of independent institutions as part of all CPE plans. Establish a policy that the impact of all CPE policies and programs on the independent sector will be explicitly examined and considered when the policies and programs are established. ■ In annual budget recommendations to the Governor, consider including specific recommendations to utilize services of the independent sector. ■ Consider inclusion of independent colleges and universities in selected trust funds.
The Kentucky Higher Education Assistance Authority (KHEAA) should advocate the use of student aid policy in additional, positive ways to address the state's goal of dramatically increasing enrollments.	■ Aggressively advocate for the increased use of student financial aid to expand access and meet state postsecondary education goals. ■ Increase policymakers' awareness of the importance of student financial aid to Kentuckians. ■ Advocate for the inclusion of independent sector students in all financial aid programs. ■ Move aggressively to fund the Kentucky Tuition Grant (KTG) at the level authorized by statute and advocate for a phase-in plan to make the KTG program a true equalization grant rather than a need-based grant.

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EXHIBIT 1 (Continued)
SUMMARY OF KEY RECOMMENDATIONS

Recommendation	Strategies
Key Recommendations to Kentucky's Independent Colleges and Universities	
Kentucky independent college and university presidents should make the necessary commitments to initiate and sustain a cooperative program to offer their services to the state, develop specific program proposals, participate in the development of state policies, and actively support joint policies.	■ Kentucky's independent college and university leaders should request and host an initial summit followed by annual meetings with the Council on Postsecondary Education to discuss the role of independent colleges and universities in achieving statewide goals and specific strategies for the state to utilize their services more effectively. ■ The presidents and AIKCU staff must develop procedures whereby the campus communities are fully informed about state policy matters. ■ The AIKCU membership should develop specific proposals for SCOPE, CPE, the Governor's Office, and Legislature outlining ways its member institutions can provide postsecondary education services to the state.
Kentucky's independent institutions should accelerate their efforts to reduce overhead costs.	■ Review overhead costs, identify alternative ways of reducing costs, and develop time schedules for reducing costs. ■ Consider strategies such as outsourcing; business process re-engineering; entering into partnerships, joint services, or contracts with other institutions; merging with other institutions to gain economies of scale; and contracting with the state to provide specific services. ■ Share the results of these efforts with state policymakers to demonstrate their ability to maintain fiscal viability in helping to meet the state's goals.
Key Recommendations to the Association of Independent Kentucky Colleges and Universities	
AIKCU should continue to provide both leadership and support services in the public policy arena.	■ AIKCU should prepare and implement a comprehensive plan of action to improve state policies and relationships. ■ Prepare specific proposals for presentation to SCOPE, the CPE, the Governor, and Legislature.
AIKCU should become more effective in preparing and supporting cooperative campus approaches to working with state public policy makers and state public policy initiatives.	■ Educate the campus community about state policy issues and conduct periodic on-campus policy seminars and information sessions. ■ Coordinate multi-campus communication and organize meetings between institutional leaders and policymakers.
The Association's Foundation (i.e., fundraising/corporate relations arm) should concentrate on activities that more directly support cost containment, public relations, and an array of cooperative efforts in which member institutions may choose to participate.	■ Pursue innovative and creative initiatives and partnerships that enhance institutional and Association revenues, reduce institutional costs, improve member services, and bring positive visibility to independent higher education. ■ Enhance public information and marketing capabilities on behalf of independent higher education. ■ Explore the feasibility of establishing a services center (i.e., multimember entity to bundle support services and related administrative functions) for independent institutions.

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1.0 INTRODUCTION AND PROJECT BACKGROUND

1.0 INTRODUCTION AND PROJECT BACKGROUND

Independent colleges and universities play a critically important role in the education of students across the nation and in Kentucky. These institutions offered citizens the earliest collegiate opportunities and they continue to play a significant role today. However, the environment in which these institutions operate is changing, and the pace of change has accelerated dramatically in recent years.

In Kentucky, the most immediate stimulus accelerating change is the passage and implementation of sweeping postsecondary education reform legislation in 1997. Under the leadership of Governor Paul E. Patton and the General Assembly, the Commonwealth initiated a comprehensive review and overhaul of its postsecondary education system to meet the economic and educational needs of its citizens more effectively. Since its passage, the Commonwealth has moved aggressively to implement the reform agenda, including a reconstituted and invigorated governance structure and a goal-oriented funding system fueled by 20 percent increases in state appropriated dollars in each of the post-reform budget cycles.

The state's independent higher education community actively supported passage of the 1997 reforms and continues to support the stated goals of postsecondary improvement. However, as implementation has evolved, Kentucky's reform fundamentally has focused on the public postsecondary education system. As a result, the resources of the independent higher education community in Kentucky are not being utilized to their full potential in helping the Commonwealth achieve stated goals. In fact, unintended consequences of some of the new reform policies are negatively affecting some independent colleges and universities and their ability to serve the citizens of the state.

Independent college and university leaders recognize that state legislative and executive leaders value the role independent colleges and universities play in the state's postsecondary delivery system. For example, the Governor, members of the Governor's cabinet, and others in state leadership positions serve on independent college governing boards and provide leadership to the institutions in other areas. It is incumbent on the independent college community to offer positive solutions to these and other interested parties. The current Administration and the General Assembly have made a significant commitment to postsecondary education; however, this level of attention and support will not last indefinitely. If postsecondary education policy is to become more inclusive, and if independent colleges and universities are to be considered full partners in helping achieve the state's education goals, that process must begin now.

1.1 Purpose and Scope of the Study

This study was commissioned to address these and related issues and to make positive, achievable recommendations. The following analyses and recommendations concentrate on three areas, the public policy arena, the campus community, and the role of the campus community's statewide association, the Association of Independent Kentucky Colleges and Universities. The goal is to enhance the state's ability to achieve postsecondary education goals by strengthening independent campuses and by offering ways that the state can more effectively utilize the Commonwealth's independent college and university resources to achieve reform goals. The study concentrates most heavily on:

- Opportunities for the Commonwealth to partner with and better utilize the state's network of 19 non-profit, regionally accredited colleges and universities that make up the Association of Independent Kentucky Colleges and Universities (AIKCU);

- Opportunities for the AIKCU colleges and universities to strengthen their programs and services in order to better serve the interests of the Commonwealth; and

- Opportunities for AIKCU, as an Association, to support and help the state's independent colleges and universities to better serve the interests of the Commonwealth.

The study is designed to give independent college and university leaders a clearer understanding of the obstacles which they must overcome to more effectively serve the people of Kentucky and of the opportunities that exist to provide those services. It is also designed to give state leaders a broader set of policy options, relative to the state's independent institutions, to consider as they continue to pursue achievement of critically important state postsecondary education goals with scarce state resources.

1.2 Information Sources and Study Methodology

This study was approached from three perspectives: environmental, organizational, and policy analysis with the emphasis placed on detailed data analyses, where possible. The primary sources of information for the study were:

- **Statistical Data** – These included data on statewide enrollments and completions by sector, student financial aid recipients by sector, statewide expenditures on higher education by sector, and independent institution finances.

- **Commonwealth Reports and Policy Documents** – These included the various state postsecondary education study reports and official policy documents that were written during the period of reform from 1995 to the present.

- **Higher Education and Organizational Literature** – Books and journal articles provided information about public policy related to the independent sector in other states as well as institutional and organizational efforts to reduce costs and increase effectiveness in a competitive environment.

- **Interviews** – Personal or telephone interviews were conducted with 33 key informants, including independent college and university presidents, state higher education policymakers, and business trustees who serve on AIKCU's foundation board.

- **Survey of State Associations** – A telephone survey was conducted with the independent college associations in 16 states, purposefully selected to represent one or more of the following characteristics: (1) contiguous states; (2) Southern Regional Education Board (SREB) states; or (3) reputation as a model state for utilization of the independent sector.

Interview Methodology. Between September and October 2000, MGT staff conducted 21 personal interviews and 12 phone interviews with key higher education leaders and policymakers across the Commonwealth, including:

- presidents of the independent colleges and universities affiliated with AIKCU (18);
- current and former state policymakers who could provide insight and perspective on the recent higher education reforms in Kentucky (9); and
- business leaders serving on the AIKCU Foundation Board who could offer feedback on the appropriate role and direction of the Association (6).

The interviews concentrated on: (1) identifying ways that the independent colleges and universities of Kentucky can become full contributors or partners in achieving the important goals that have been established for postsecondary education in Kentucky; (2) assessing the current higher education environment, including any challenges or unintended consequences that independent colleges and universities may face in light of recent postsecondary education reforms; and (3) identifying strategies that AIKCU can implement to assist its member institutions. The Interview Guides for presidents, policymakers, and business leaders on the Foundation Board are included in Appendix A.

Survey Methodology. A major component of this study involved a survey of independent college state associations to determine how other states utilize the independent sector to achieve state goals. A telephone survey was conducted with the independent college state associations in eighteen states that were purposefully selected to represent one or more of the following characteristics: (1) contiguous states;

(2) SREB states; or (3) reputation as a model state for utilization of the independent sector. The participating states and the rationale for selection in the survey are outlined in Exhibit 1-1. The survey instrument is included in Appendix B of this report.

The interviews were designed to determine how other states utilize the independent sector and to identify the "best practice" types of services that independent college state associations in other states provide for their members. The survey consisted of 9 open-ended questions and 10 short answer questions related to the following issues:

- Structure and process for public policy decisions related to independent institutions;
- Specific programs and state policies that utilize the independent sector;
- Organization and structure of the state associations; and
- Activities of the state association.

EXHIBIT 1-1
STATES SELECTED FOR THE SURVEY

State	Rationale for Selection		
	Contiguous	SREB	Reputation
Florida		✔	✔
Georgia		✔	
Illinois	✔		
Indiana	✔		
Maryland		✔	✔
Massachusetts			✔
Michigan			✔
Minnesota			✔
Missouri	✔		
New York			✔
North Carolina		✔	
Ohio	✔		✔
Pennsylvania			✔
South Carolina		✔	
Tennessee	✔	✔	
Virginia	✔	✔	✔
West Virginia	✔	✔	
Wisconsin			✔

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1.3 *Overview of Remaining Chapters*

This report is comprised of ten chapters, including this introductory chapter. The remaining chapters are:

- **Chapter 2.0 – The Importance of Education to Kentucky's Economy:** This chapter highlights the important link between postsecondary education and the Commonwealth's economy from both an individual perspective and a state perspective. This connection has been the driving force behind postsecondary education reform in Kentucky.

- **Chapter 3.0: Overview of the Postsecondary Education Structure in Kentucky:** This chapter presents a brief summary of the independent and public sectors of postsecondary education as well as the coordinating and governing structures that have been put in place through recent reform efforts.

- **Chapter 4.0 – Contributions of the Kentucky Independent Sector of Higher Education:** This chapter presents background information on the 19 AIKCU institutions and highlights relevant data about their contributions to the postsecondary needs and interests of the state.

- **Chapter 5.0 – The Role of Independent Institutions in Other States:** This chapter contains research on public policy related to the independent sector and a summary of the programs and policies that are in place in other states to promote effective utilization of the independent sector.

- **Chapter 6.0 – The Changing Environment for Independent Higher Education in the Nation and in Kentucky:** This chapter presents a summary of key elements in the environment that impact independent colleges and universities, including the recent postsecondary education reforms in the Commonwealth.

- **Chapter 7.0 – The Role of the State in Creating a More Effective, Efficient, and Competitive Independent Sector:** This chapter highlights the potential advantages presented by the independent colleges and universities of Kentucky, alternative ways for the state to purchase services from these institutions, and existing barriers to more effective use of the independent sector.

- **Chapter 8.0 – The Role of the Institutions in Creating a More Effective, Efficient, and Competitive Independent Sector:** This chapter highlights the specific institutional issues that independent college and university leaders must address in order to more effectively and efficiently help achieve the state's highly aggressive postsecondary education goals.

- **Chapter 9.0 – The Role of the Association in Creating a More Effective, Efficient, and Competitive Independent Sector:** This chapter highlights the specific issues that the Association must address in order to more effectively help its member to serve the needs of the Commonwealth.

- **Chapter 10.0 – Recommendations:** This chapter outlines and describes the recommendations directed to the state, the independent institutions, and AIKCU. This set of recommendations, intended as a package, will enable the Commonwealth to take full advantage of the tremendous resources and advantages offered by its independent colleges and universities.

2.0 THE IMPORTANCE OF EDUCATION TO KENTUCKY'S ECONOMY

2.0 THE IMPORTANCE OF EDUCATION TO KENTUCKY'S ECONOMY

From an economic perspective, the Kentucky postsecondary education system is responsible for (1) providing the state's citizens with educational opportunities for productive economic careers, (2) providing professionally trained workers to enable the state's businesses to be successful in the global economy, and (3) developing the research and development infrastructure to allow the state to compete economically in the world market.

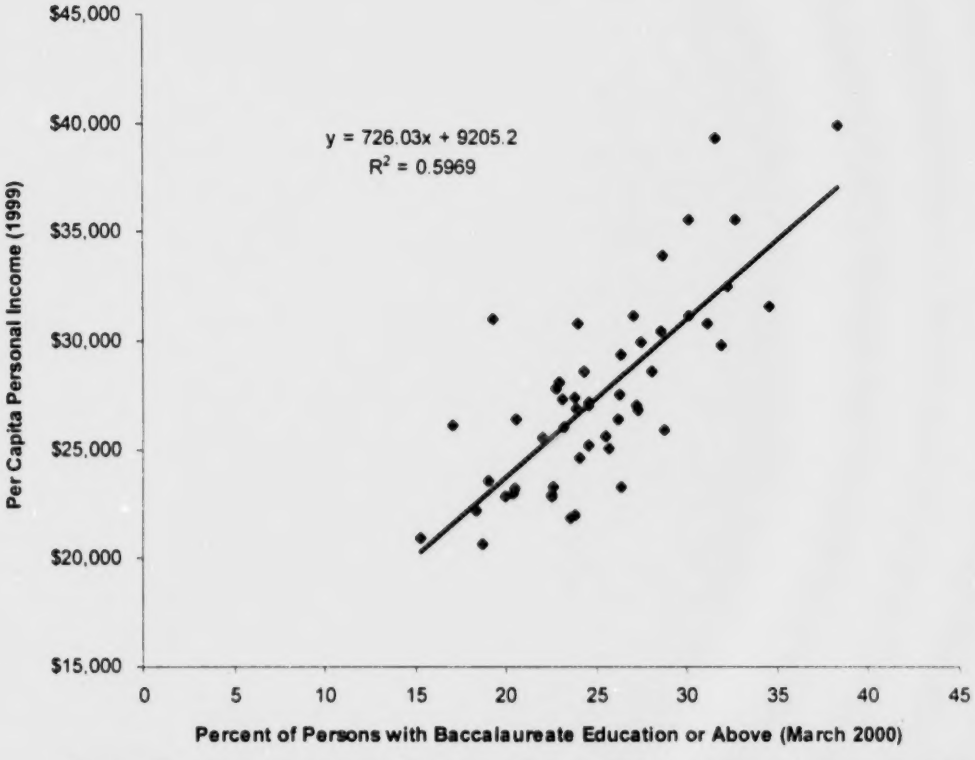
2.1 Economic Importance of Postsecondary Education

Prior studies have established that in today's high technology, high science, and knowledge based economy, education is a far more important economic resource than vast natural resources, proximity to markets, access to transportation, or other traditional economic factors. As shown in Exhibit 2-1, a very strong and positive correlation exists between the postsecondary education level of a state's citizens and the per capita income of the state. Almost without exception, those states with the higher per capita incomes have the higher postsecondary education levels. On the average, based on 1999 and 2000 data, states experienced a $726 increase in per capita income for each one percent increase in the percent of adult population with four or more years of college.

Just as postsecondary education is an essential ingredient in the ability of a state to be economically successful in today's economy, it also is essential to the ability of an individual to be economically successful. As shown in Exhibit 2-2, those individuals

without a college education can expect, on the average, lifetime earnings which are significantly less than the earnings of those with a college degree.

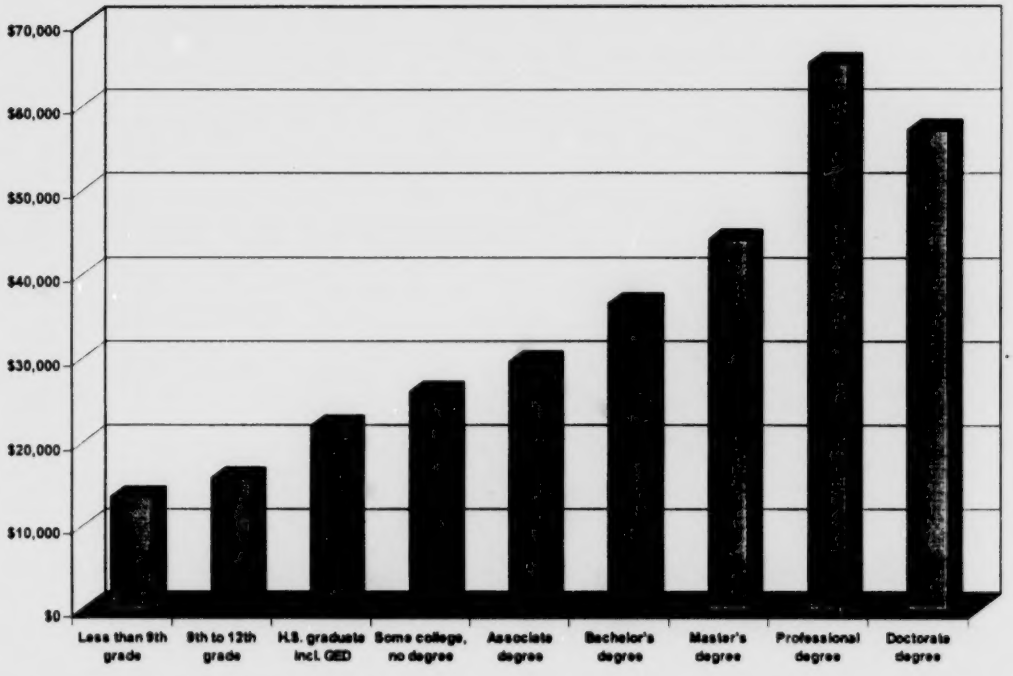
EXHIBIT 2-1
STATISTICAL RELATIONSHIP BETWEEN STATE LEVELS OF POSTSECONDARY EDUCATION ATTAINMENT AND PER CAPITA INCOME



Source: Educational attainment: U.S. Census Bureau, 2000; per capita personal income: Bureau of Economic Analysis, 1999.

Thus, the extent to which a state educates its people has become a major determinant of the success of both individual citizens in earning decent wages and the state's economy in competing in the world economy. A state that aggressively educates its citizens enables both its people and its businesses to be successful.

EXHIBIT 2-2
MEDIAN ANNUAL EARNINGS OF FULL-TIME U.S. WORKERS 25 YEARS AND OLDER, BY YEARS OF SCHOOL COMPLETED, 1998



Source: The Bureau of Labor Statistics and The U.S. Census Bureau, Annual Demographic Survey (http://ferret.bls.census.gov/macro/031999/perinc/new06_001.htm)

2.2 *Prior Kentucky Studies*

The March 1997 Kentucky Report to the Task Force on Postsecondary Education confirmed the important role that postsecondary education plays in economic growth, noting that the lack of educated workers is a major barrier to a strong state economy. The 1997 *Kentucky Annual Economic Report*, produced by the University of Kentucky's Center for Business and Economic Research, indicated that approximately 57 percent of the differential between per capita personal income in Kentucky and other states can be attributed to the state's low level of educational attainment.

The 1997 report to the Kentucky Task Force on Postsecondary Education reported that:

- Only 13 percent of the state's adult population had completed a baccalaureate degree compared to a national level of 20 percent.
- Kentucky ranks high among competitor states in postsecondary enrollments, but near the bottom for student completion. An early 1990 study found that only 1.9 percent of the associate degree students who transfer to the University of Kentucky earn a degree in three years and only 41.6% were still enrolled after three years.
- "... geographic accessibility of postsecondary education in Kentucky is highly concentrated" and that "...major gaps still exist in certain areas."

2.3 ***Kentucky's Postsecondary Education Production Record Continues to Lag the Nation***

As presented in previous Kentucky studies, the Commonwealth's collective (public and independent) postsecondary education system continues to lag behind other states in the rate at which it is enrolling and graduating students, especially at the baccalaureate level. According to the state's business leaders, the failure of Kentucky's education system to produce adequate numbers of highly trained workers is a major obstacle to the state's economic growth.

As shown in Exhibit 2-3, Kentucky ranks 43rd in the nation in annual baccalaureate degree production (i.e., the number of degrees granted per 100,000 target population ages 18-44 in the state). Similarly, Exhibits 2-4, 2-5, and 2-6 show that Kentucky trails the nation in annual graduate degree production, ranking 36th in master's degree production, 41st in doctoral degree production, and 15th in professional degree production. When compared to those states with per capita incomes above the national average since 1970, Kentucky lags even further behind. As shown in Exhibit 2-7, Kentucky's annual production of postsecondary education degrees is significantly

EXHIBIT 2-3
TOTAL BACHELOR'S DEGREES AWARDED PER 100,000 TARGET AGE POPULATION ADJUSTED TO REFLECT IN & OUT OF STATE MIGRATION DIFFERENCES, 1997-1998

STATE	Bachelor's Degrees Awarded a/	Adjustment Factor b/	Estimated Awards to State Residents c/	State Ranking
North Dakota	1,848.77	0.87	1,608.43	1
Montana	1,522.22	1.05	1,598.33	2
South Dakota	1,513.55	1.04	1,574.09	3
Nebraska	1,573.51	0.97	1,526.31	4
Iowa	1,615.66	0.89	1,437.94	5
Utah	1,891.69	0.76	1,437.69	6
Massachusetts	1,604.09	0.85	1,363.48	7
Rhode Island	2,068.46	0.65	1,344.50	8
New York	1,303.20	1.01	1,316.24	9
Wisconsin	1,318.12	0.99	1,304.94	10
Vermont	1,836.38	0.71	1,303.83	11
New Hampshire	1,525.35	0.85	1,296.55	12
Connecticut	1,087.75	1.18	1,283.54	13
Pennsylvania	1,381.70	0.92	1,271.17	14
Maine	1,093.72	1.16	1,268.71	15
Kansas	1,347.72	0.94	1,266.85	16
Missouri	1,338.82	0.94	1,258.49	17
Oklahoma	1,251.80	0.97	1,214.25	18
Minnesota	1,212.95	0.99	1,200.82	19
Indiana	1,296.75	0.90	1,167.08	20
Illinois	1,059.87	1.08	1,144.66	21
Colorado	1,260.88	0.90	1,134.79	22
New Jersey	778.50	1.44	1,121.03	23
Delaware	1,417.40	0.79	1,119.74	24
Michigan	1,117.56	1.00	1,117.56	25
Maryland	1,008.01	1.09	1,098.73	26
West Virginia	1,211.23	0.90	1,090.11	27
Ohio	1,090.91	0.97	1,058.18	28
Alabama	1,161.83	0.90	1,045.65	29
Louisiana	1,067.91	0.97	1,035.88	30
Oregon	1,074.00	0.95	1,020.30	31
Alaska	580.00	1.74	1,009.19	32
Hawaii	965.85	1.04	1,004.48	33
New Mexico	928.57	1.04	965.71	34
North Carolina	1,117.45	0.85	949.83	35
Washington	1,003.12	0.94	942.94	36
Virginia	1,047.15	0.90	942.43	37
Arkansas	962.02	0.97	933.16	38
Idaho	961.58	0.97	932.73	39
Wyoming	929.79	1.00	929.79	40
South Carolina	1,005.15	0.91	914.69	41
Tennessee	937.47 → 980.12	0.97 → 0.93	911.51	42
Kentucky → [redacted]	[redacted]	[redacted]	909.35	43
Texas	880.56	1.00	880.56	44
Mississippi	940.11	0.93	874.31	45
Georgia	884.53	0.95	840.31	46
Florida	874.23	0.95	830.52	47
Arizona	903.55	0.87	786.09	48
California	772.95	1.00	772.95	49
Nevada	555.90	0.95	528.10	50
50 States Weighted Average			***1,044.87***	

a/ Number awarded refers to the number of degree completions per level per target age population aged 18-44 as of July 1998 Census estimates

b/ Adjustment factor =state residents/students enrolled

c/ Estimated awards =Degrees awarded per 100,000 TAP * Adjustment Factor

Sources

U S Census Bureau (2000) Population Estimates for the U S , Regions, and States by Selected Age Groups and Sex Annual Time series, July 1, 1990 to July 1, 1999 [WWW document]
URL http //www census gov/population/estimates/state/st-99-09 txt

U S Department of Education National Center for Education Statistics, Integrated Postsecondary Education Data System (IPEDS) (2000) Fall Enrollment Survey, Fall 1996 Table 1 Residence and migration of all first-time freshmen enrolled in degree-granting institutions, by state Fall 1996 1/ [WWW document]
URL http //nces ed gov/pubs98/migration/efrmt1 html

U S Department of Education National Center for Education Statistics, Integrated Postsecondary Education Data System (IPEDS) (1998) IPEDS Completions Survey, Survey Year 1997-1998

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EXHIBIT 2-4
TOTAL MASTER'S DEGREES AWARDED PER 100,000 TARGET AGE POPULATION ADJUSTED TO REFLECT IN & OUT OF STATE MIGRATION DIFFERENCES, 1997-1998

STATE	Master's Degrees Awarded a/	Adjustment Factor b/	Estimated Awards to State Residents c/	State Ranking
Massachusetts	933 86	0.85	793 78	1
Connecticut	556 17	1 18	656 28	2
New York	625 36	1 01	631 61	3
Illinois	507 00	1 08	547 56	4
Maryland	469 76	1.09	512 04	5
Missouri	544 64	0 94	511 96	6
Michigan	451 00	1 00	451 00	7
Vermont	624 39	0 71	443 32	8
Nebraska	452 34	0 97	438 77	9
Colorado	473 84	0 90	426 46	10
Pennsylvania	452 55	0 92	416 34	11
Kansas	441 62	0 94	415 12	12
Oklahoma	417 40	0 97	404 88	13
New Hampshire	475 61	0 85	404 26	14
New Jersey	276 46	1 44	398 10	15
Ohio	387 77	0 97	376 13	16
Minnesota	378 83	0 99	375 04	17
Delaware	461 66	0 79	364 72	18
New Mexico	350 49	1 04	364 51	19
South Dakota	338 71	1 04	352 26	20
West Virginia	374 33	0 90	336 90	21
Virginia	368 32	0 90	331 49	22
Alaska	189 80	1 74	330 26	23
Alabama	361 28	0 90	325 15	24
Wisconsin	319 95	0 99	316 75	25
Oregon	333 39	0 95	316 72	26
Louisiana	325 77	0 97	315 99	27
Rhode Island	485 58	0 65	315 63	28
Hawaii	301 08	1 04	313 12	29
Arizona	356 27	0.87	309 96	30
Georgia	321 20	0 95	305 14	31
Indiana	336 45	0 90	302 80	32
Tennessee	323 21	0 93	300 58	33
Washington	318 82	0 94	299 69	34
Kentucky Iowa	301.27 331 05	0.97 0 89	292.23 294 63	35 36
Texas	291 22	1 00	291 22	37
Mississippi	310 91	0 93	289 14	38
Florida	302 89	0 95	287 74	39
California	280 53	1.00	280 53	40
South Carolina	301 37	0 91	274 24	41
Utah	360 50	0 76	273 98	42
North Dakota	308 33	0 87	268 25	43
Montana	253 40	1 05	266 07	44
Maine	222 60	1 16	258 22	45
North Carolina	266 26	0 85	226 32	46
Arkansas	227 52	0 97	220 69	47
Wyoming	210 92	1 00	210 92	48
Idaho	214 71	0 97	208 27	49
Nevada	158 95	0 95	151 00	50
50 States Weighted Average			373.95	

a/ Number awarded refers to the number of degree completions per level, per target age population aged 18-44 as of July 1998 Census estimates

b/ Adjustment factor =state residents/students enrolled

c/ Estimated awards =Degrees awarded per 100,000 TAP * Adjustment Factor

Sources:

U.S. Census Bureau (2000). Population Estimates for the U.S., Regions, and States by Selected Age Groups and Sex: Annual Time series, July 1, 1990 to July 1, 1999 [WWW document]
URL http://www.census.gov/population/estimates/state/st-99-09.txt

U.S. Department of Education National Center for Education Statistics. Integrated Postsecondary Education Data System (IPEDS) (2000) Fall Enrollment Survey. Fall 1998 Table 1 Residence and migration of all first-time freshmen enrolled in degree-granting institutions, by state: Fall 1998 1/ [WWW document]
URL http://nces.ed.gov/pubs98/migration/sfrmt1.html

U.S. Department of Education National Center for Education Statistics. Integrated Postsecondary Education Data System (IPEDS) (1998). IPEDS Completions Survey, Survey Year 1997-1998

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EXHIBIT 2-5
TOTAL DOCTORAL DEGREES AWARDED PER 100,000 TARGET AGE POPULATION ADJUSTED TO REFLECT IN & OUT OF STATE MIGRATION DIFFERENCES, 1997-1998

STATE	Doctoral Degrees Awarded a/	Adjustment Factor b/	Estimated Awards to State Residents c/	State Ranking
Massachusetts	100 99	0 85	85 84	1
Nebraska	66 91	0 97	64 91	2
Connecticut	53 23	1 18	62 82	3
Illinois	52 94	1 08	57 18	4
New York	54 24	1 01	54 78	5
Iowa	59 77	0 89	53 20	6
Maryland	45 78	1 09	49 90	7
Ohio	50 52	0 97	49 01	8
Pennsylvania	52 62	0 92	48 41	9
New Mexico	45 85	1 04	47 68	10
Colorado	52 14	0 90	46 92	11
Alaska	26 67	1 74	46 40	12
Wisconsin	45 75	0 99	45 29	13
Kansas	46 79	0 94	43 99	14
Indiana	48 58	0 90	43 72	15
Delaware	55 18	0 79	43 59	16
New Jersey	29 83	1 44	42 95	17
Minnesota	42 40	0 99	41 98	18
Rhode Island	62 43	0 65	40 58	19
Michigan	39 61	1 00	39 61	20
Missouri	40 37	0 94	37 95	21
California	37 89	1 00	37 89	22
Arizona	43 29	0 87	37 66	23
Hawaii	33 94	1 04	35 30	24
Texas	35 09	1 00	35 09	25
Wyoming	34 88	1 00	34 88	26
Oregon	36 17	0 95	34 36	27
Virginia	37 32	0 90	33 59	28
Louisiana	34 21	0 97	33 18	29
Florida	34 83	0 95	33 09	30
Montana	30 21	1 05	31 72	31
Utah	41 34	0 76	31 42	32
Oklahoma	32 23	0 97	31 26	33
Georgia	32 36	0 95	30 75	34
North Carolina	35 46	0 85	30 14	35
Mississippi	32 05	0 93	29 81	36
Tennessee	32 00	0 93	29 76	37
Alabama	32 54	0 90	29 28	38
Washington	30 35	0 94	28 52	39
South Dakota	25.89 25 67	097 1 04	25.11 26 69	40 41
Kentucky	[illegible]	[illegible]	[illegible]	[illegible]
New Hampshire	29 50	0 85	25 07	42
North Dakota	28 58	0 87	24 86	43
South Carolina	26 20	0 91	23 84	44
West Virginia	23 09	0 90	20 78	45
Idaho	19 04	0 97	18 47	46
Vermont	25 64	0 71	18 20	47
Arkansas	16 90	0 97	16 39	48
Nevada	13 22	0 95	12 56	49
Maine	9 84	1 16	11 42	50
50 States Weighted Average			*40.43*	

Kentucky

a/ Number awarded refers to the number of degree completions per level, per target age population aged 18-44 as of July 1998 Census estimates.

b/ Adjustment factor =state residents/students enrolled

c/ Estimated awards =Degrees awarded per 100,000 TAP * Adjustment Factor

Sources:

U.S. Census Bureau (2000). Population Estimates for the U.S., Regions, and States by Selected Age Groups and Sex: Annual Time series, July 1, 1990 to July 1, 1999 [WWW document]
URL:http://www.census.gov/population/estimates/state/st-99-09.txt

U.S. Department of Education National Center for Education Statistics. Integrated Postsecondary Education Data System (IPEDS) (2000). Fall Enrollment Survey. Fall 1998 Table 1 Residence and migration of all first-time freshmen enrolled in degree-granting institutions, by state: Fall 1998 1/ [WWW document]
URL:http://nces.ed.gov/pubs98/migration/efrmt1.html

U.S. Department of Education National Center for Education Statistics. Integrated Postsecondary Education Data System (IPEDS) (1998). IPEDS Completions Survey. Survey Year 1997-1998

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EXHIBIT 2-6
TOTAL FIRST PROFESSIONAL DEGREES AWARDED PER 100,000 TARGET AGE POPULATION ADJUSTED TO REFLECT IN & OUT OF STATE MIGRATION DIFFERENCES, 1997-1998

STATE	Professional Degrees Awarded a/	Adjustment Factor b/	Estimated Awards to State Residents c/	State Ranking
Massachusetts	156 03	0 85	132 63	1
Iowa	144 45	0 89	128 56	2
Nebraska	119 17	0 97	115 59	3
Missouri	112 38	0 94	105 64	4
New York	101 08	1 01	102 09	5
Illinois	92 16	1 08	99 53	6
Louisiana	99 18	0 97	96 20	7
Delaware	110 36	0 79	87 19	8
Minnesota	87 86	0 99	86 99	9
Connecticut	68 60	1 18	80 95	10
Oregon	84 26	0 95	80 04	11
New Jersey	55 52	1 44	79 94	12
Pennsylvania	86 42	0 92	79 50	13
Oklahoma	80 65	0 97	78 23	14
[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
Georgia	76 07	0 95	72 26	16
Ohio	74 17	0 97	71 94	17
South Dakota	68 32	1 04	71 05	18
Vermont	97 59	0 71	69 29	19
Michigan	64 44	1 00	64 44	20
Maryland	59 04	1 09	64 35	21
Tennessee	68 10	0 93	63 33	22
North Dakota	71 65	0 87	62 33	23
Virginia	67 64	0 90	60 88	24
Texas	59 85	1 00	59 85	25
California	59 55	1 00	59 55	26
Indiana	63 33	0 90	57 00	27
Alabama	62 61	0 90	56 35	28
North Carolina	62 73	0 85	53 32	29
Kansas	56 11	0 94	52 75	30
West Virginia	55 81	0 90	50 23	31
Wisconsin	49 27	0 99	48 78	32
Florida	51 31	0 95	48 75	33
Colorado	51 89	0 90	46 70	34
Arkansas	47 99	0 97	46 55	35
South Carolina	48 08	0 91	43 75	36
Maine	36 77	1 16	42 65	37
Mississippi	45 11	0 93	41 95	38
Washington	41 51	0 94	39 01	39
Rhode Island	58 15	0 65	37 80	40
Utah	43 89	0 76	33 36	41
Wyoming	32 70	1 00	32 70	42
New Hampshire	37 93	0 85	32 24	43
Idaho	32 65	0 97	31 67	44
New Mexico	27 63	1 04	28 73	45
Hawaii	26 99	1 04	28 07	46
Montana	20 96	1 05	22 01	47
Arizona	24 19	0 87	21 04	48
Nevada	6 97	0 95	6 63	49
Alaska	-	1 74	-	50
50 States Weighted Average			*87.85*	

a/ Number awarded refers to the number of degree completions per level per target age population aged 18-44 as of July 1998 Census estimates.

b/ Adjustment factor =state residents/students enrolled

c/ Estimated awards =Degrees awarded per 100,000 TAP * Adjustment Factor

Sources

U S Census Bureau (2000) Population Estimates for the U.S., Regions, and States by Selected Age Groups and Sex Annual Time series, July 1, 1990 to July 1, 1999 [WWW document]
URL http://www.census.gov/population/estimates/state/st-99-09.txt

U S Department of Education National Center for Education Statistics, Integrated Postsecondary Education Data System (IPEDS) (2000) Fall Enrollment Survey, Fall 1996 Table 1 Residence and migration of all first-time freshmen enrolled in degree-granting institutions, by state Fall 1996 1/ [WWW document]
URL http://nces.ed.gov/pubs98/migration/efrmt1.html

U S Department of Education National Center for Education Statistics, Integrated Postsecondary Education Data System (IPEDS) (1998) IPEDS Completions Survey, Survey Year 1997-1998

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EXHIBIT 2-7
COMPARISON OF KENTUCKY'S ANNUAL POSTSECONDARY EDUCATION DEGREE PRODUCTION PER 100,000 POPULATION, AGES 18-44, WITH THOSE STATES WITH THE HISTORICALLY STRONG ECONOMIES SINCE 1980

State	Degrees Per 100,000 Population, Ages 18-44			
	Bachelor's	Master's	Doctorate	First Professional
California	811	280	38	64
Connecticut	1,008	505	51	69
Delaware	1,425	406	59	127
Illinois	1,052	507	53	95
Maryland	1,099	292	50	64
Massachusetts	1,581	864	92	142
Minnesota	1,201	375	42	87
New Jersey	759	260	32	52
New York	1,277	592	50	102
Average	*1,114*	*454*	*51*	*84*
Kentucky	909	292	25	72

Source: Exhibits 3-3 through 3-6.

below the average for these historically economically strong states. It is clear that Kentucky's collective postsecondary education system does not provide the level of educational opportunities for its people that most other states, particularly those states with consistently high economic performance, provide for their citizens. Nor has the state provided the level of professionally educated workers needed for the state's economy.

2.4 *Reasons for Kentucky's Relatively Low Production of Postsecondary Education Degrees*

The March 1997 report to the Kentucky Task Force on Postsecondary Education did not fully explore the reasons for Kentucky's low production of postsecondary education degrees. However, the report did identify some important barriers, including:

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- Major gaps exist in geographical accessibility. Place-bound students in many Kentucky communities do not have access to baccalaureate degree programs.

- A high percentage of the state's baccalaureate students drop out before graduating.

- Financial barriers exist for many students who do not have access to the funds necessary to enroll in a postsecondary institution and complete the program requirements.

Other potential barriers could include:

- Lack of family understanding of the importance of postsecondary education;

- Lack of family understanding of postsecondary education opportunities, e.g., feelings that it is not possible for our son or daughter to go to college;

- Lack of student and family confidence in the ability to succeed in college;

- A college environment that does not provide adequate personal attention to students, leading to high dropout rates; and

- Lack of geographical access to desired degree programs.

Unfortunately, the 1997 report did not fully address either the reasons for the state's low degree productivity rates or solutions to the problems. The report dealt with the bigger issues of how to restructure the state's public postsecondary education system with the implicit assumption that a better structured public postsecondary education system with the proper economic incentives will identify and solve the state's low degree productivity problem. While there can be no doubt that the subsequent restructuring of the state's public postsecondary education system along with increased funding and new economic incentives for public institutions have improved Kentucky's postsecondary education system, no guarantee exists that the student and family barriers to postsecondary education enrollments and degree completions will be removed.

If Kentucky is to achieve fully the goals of its ambitious reform agenda, it must reach out aggressively to all of its postsecondary providers, public and independent, with innovative policies to encourage growth and improve quality and efficiency. Kentucky's state-funded system of postsecondary education has benefited from 20 percent increases during the last two biennial budget cycles, but these levels of funding increases cannot continue indefinitely. The state must begin to evaluate other options and maximize available resources if it is to provide a long-term solution for its citizens.

3.0 OVERVIEW OF THE POSTSECONDARY EDUCATION STRUCTURE IN KENTUCKY

3.0 OVERVIEW OF THE POSTSECONDARY EDUCATION STRUCTURE IN KENTUCKY

This chapter is designed to present background information about Kentucky's total postsecondary education system and its organizational structure. It includes an overview of the structure of postsecondary education in Kentucky, briefly describing the responsibilities of the Strategic Committee on Postsecondary Education, the Council on Postsecondary Education, the Kentucky Community and Technical College System, the Kentucky Higher Education Assistance Authority, and the Association of Independent Kentucky Colleges and Universities. Additionally, this chapter provides a broad overview of Kentucky's three sectors of postsecondary education:

- Independent Colleges and Universities – Although Kentucky has more than 40 two- and four-year non-public institutions, only 20 are regionally accredited, not-for-profit independent institutions. Of those, 19 are members of the Association of Independent Kentucky Colleges and Universities.
- Public Universities – Kentucky has eight public universities and one community college that is controlled by the University of Kentucky.
- Public Community and Technical Colleges – Kentucky has 28 institutions in the Kentucky Community and Technical College System, including 15 technical colleges and 13 community colleges.

3.1 Statewide Governance and Coordination

The governing and coordinating structure for postsecondary education in Kentucky was reorganized as a result of the Postsecondary Improvement Act of 1997 (HB 1). This monumental piece of legislation established the Strategic Committee on Postsecondary Education, the Council on Postsecondary Education, and the Kentucky Community and Technical College System. The Association of Independent Kentucky Colleges and Universities predates the Kentucky postsecondary reforms and continues to serve as the united voice of regionally accredited, not-for-profit institutions in the Commonwealth.

3.1.1 Strategic Committee on Postsecondary Education

The Strategic Committee on Postsecondary Education (SCOPE) was established to help de-politicize the highly charged postsecondary environment in Kentucky. Historically, higher education in Kentucky has been dominated by regional politics and turf battles among the public universities and their legislative supporters. Policy decisions often tended to focus on institutional needs rather than those of the state. SCOPE was designed to help change the postsecondary culture in the state, and allow the leadership in the state to focus more on policy and less on politics. It serves as a forum for the Council on Postsecondary Education and the elected leadership of the Commonwealth to exchange ideas about the future of postsecondary education in Kentucky. The membership of SCOPE includes:

- Governor;
- Six executive branch appointees;
- Speaker of the House of Representatives and President of the Senate;
- Majority and Minority Floor Leaders of both chambers of the General Assembly;
- Minority Caucus Chair of each chamber;
- Chair of the Committee on Appropriations and Revenue of each chamber;
- Four legislative appointees;
- Chair and President of the Council on Postsecondary Education; and
- Five members of the Council on Postsecondary Education appointed by the Council Chair.

According to the enabling legislation, SCOPE serves as an advisory committee, responsible for performing the following functions:

- receiving Council reports on the development and implementation of the long-term Strategic Agenda, including biennial budget requests;
- reviewing objectives and benchmarks proposed by the Council for the next fiscal biennium;

- considering and advising the Council on the general budget parameters regarding development of the budget for the next fiscal biennium; and
- receiving annual accountability reports, budget information, and other relevant data from the Council.

3.1.2 The Council on Postsecondary Education

Public postsecondary education in Kentucky is coordinated by the Council on Postsecondary Education (Council), established in 1997 to replace the former Council on Higher Education. The Council is composed of 16 Kentucky citizens who are appointed by the Governor. A Council President, Dr. Gordon K. Davies, and more than 50 other employees provide staff support to the Council.

As the state's major postsecondary education policy-setting organization, the Council is charged with ensuring that the postsecondary reforms are implemented and that the goals of the reform are achieved. One of the key roles of the Council is to help all institutions, both public and independent, work together in establishing a strategic agenda and achieving the goals that were outlined in the Postsecondary Improvement Act of 1997. This includes "promoting cooperation between and among public and private postsecondary institutions, guarding against inappropriate and unnecessary conflict and duplication."[1]

Unlike its predecessor, the Council plays a reduced role in the regulation of the state's public institutions. Instead, the Council is focused on setting and implementing broad policies that further the goals of the reform agenda. In particular, the Council has significantly expanded influence over the legislative budget for postsecondary education. While each public institution continues to receive operating appropriations from the state, the Council plays a central role in determining the formula (currently based on a benchmark formula) for funding and distribution. It also manages and sets the

[1] *An Agenda for the 21st Century: A Plan for Postsecondary Education*, (1997).

guidelines for the new incentive trust fund monies, which have become a significant source of revenue for public sector institutions. The Council also is responsible for developing the Kentucky Virtual University (KYVU). Created by the 1997 reforms, the KYVU is not a freestanding and separately accredited institution; rather it serves as a student-centered, technology-based mechanism for delivering courses, programs, and academic support services provided by existing institutions, both within and outside of the Commonwealth. The primary purposes of the KYVU are to:

- enhance and expand educational access and increase educational attainment across Kentucky;
- upgrade workforce skills and expand professional development through basic continuing education;
- increase collaboration and foster efficiency and effectiveness in delivering courses and programs;
- enhance educational quality; and
- increase global competitiveness of Kentucky's educational resources.

According to guidelines developed by the Council, the KYVU targets a broad spectrum of clients, including adult students, place-bound and time-bound students; employers and employees in business, industry, and government; P-12 students, teachers, and administrators; traditional resident students; and students living in other states and countries. The Council is responsible for establishing KYVU policies in consultation with the Commonwealth's higher education institutions. This includes setting guidelines related to tuition, fees, program offerings, and geographic services areas.

3.1.3 Kentucky Community and Technical College System

The creation of the Kentucky Community and Technical College System (KCTCS) in 1997 combined two educational systems with long histories in the Commonwealth. The combined system includes 13 community colleges and 15 technical colleges. They are governed by a 14-member Board of Regents; eight appointed by the Governor and six elected by the faculty, staff, and students of the community and technical colleges.

The management structure includes a system president, a chancellor for the community colleges, and a chancellor for the technical colleges.

3.1.4 Kentucky Higher Education Assistance Authority

The Kentucky Higher Education Assistance Authority (KHEAA) is a public corporation and government agency established in 1966 to improve students' access to higher education in the Commonwealth. The primary functions of KHEAA are to administer financial aid programs and to disseminate information about higher education and student financial aid opportunities. The state-funded financial aid programs for which KHEAA has responsibility include:

- College Access Program (CAP) – A need-based grant for eligible Kentucky students attending public or independent colleges and universities in the Commonwealth. The maximum award (2000-2001) is $600 per semester.

- Kentucky Educational Excellence Scholarship (KEES) – A new merit-based program for eligible Kentucky students attending public or independent colleges and universities in the Commonwealth. Each year, high school students earn up to $500 for each year of postsecondary study based on cumulative grade point average as well as a bonus of up to $500 based on ACT score.

- Kentucky Tuition Grant (KTG) – A need-based grant for eligible Kentucky students attending regionally–accredited independent colleges or universities in the Commonwealth. The maximum award (2000-2001) is $1,600 per academic year.

- Teacher Scholarships – A need-based scholarship program for highly qualified Kentucky students pursuing initial teacher certification at participating Kentucky institutions. The maximum award is $2,500 per semester. Recipients are required to provide one semester of qualified teaching service for each semester or summer session award they receive, except those in a critical shortage area will have two semesters or summer terms canceled for each semester of qualified teaching service. If a recipient does not complete the program or does not render qualified teaching service, the scholarship becomes a loan and the recipient is required to repay the amount disbursed with 12% interest.

- Work-Study Program – Provides career-related work experience to participating Kentucky resident students attending approved in-state postsecondary institutions. The jobs are provided by Kentucky employers, most of whom are private entities. Students must be paid at least the federal minimum wage. KHEAA pays $2.00 per hour toward each individual's wages.

- Osteopathic Medicine Scholarship – This program helps Kentucky students attend the Pikeville College School of Osteopathic Medicine. The award is equal to the difference between the average amount charged for in-state tuition at the state medical schools and the tuition at the Pikeville College School of Osteopathic Medicine. Recipients must practice one year in Kentucky for each year they receive a scholarship. Recipients who do not practice in Kentucky must repay the scholarship with 12 percent interest.

Since its creation, the agency has helped hundreds of thousands of Kentucky students pay for their higher education. In 2000, KHEAA awarded $53.6 million from scholarship, grant, and work-study programs and guaranteed $454.8 million in Federal Family Education Loans.

3.1.5 The Association of Independent Kentucky Colleges and Universities

The Association of Independent Colleges and Universities (AIKCU) is the only statewide organization that exclusively serves independent higher education in the Commonwealth. Created in 1994, AIKCU brings together the public policy, programming, and research expertise of the Council of Independent Kentucky Colleges and Universities (CIKCU) and the fundraising and advocacy focus of the Kentucky Independent College Foundation (KICF). Under the umbrella of the Association, these organizations have come together to provide a variety of services and programs designed to meet the needs and objectives of independent higher education in Kentucky and complement and support the work of campus leaders.

Membership in AIKCU is made up of Kentucky's regionally accredited, not-for-profit colleges and universities. Nineteen of the 20 qualifying institutions in the Commonwealth are members of the Association.[2] Primary governance of the Association rests with a board of member college and university presidents and an

[2] The 20th, Mid-Continent College in Maysville, recently received regional accreditation and will be considered for membership when application is made.

executive committee made up of college presidents and business leaders from Kentucky.

As the united voice of independent higher education in the Commonwealth, AIKCU seeks to inform policymakers, the business and foundation communities, parents, students, and the general public about the individual and collective value of the colleges and universities that make up its membership.

3.2 *Independent Colleges and Universities*

The 19 regionally accredited non-profit independent institutions affiliated with the Association of Independent Kentucky Colleges and Universities are located in 17 counties distributed geographically throughout the Commonwealth. Many are located in rural areas. AIKCU institutions are not represented in the far western part of the state.

Kentucky's independent colleges and universities are among the most affordable in the nation. The average for 1999-2000 four-year tuition and fees is $9,880 (weighted by enrollment), a 5.3 percent increase over 1998-1999, **and 36 percent lower than the national average for four-year independent institutions.** In the 1999-2000 academic year, annual tuition ranged from approximately $5,000 at St. Catharine College to approximately $16,000 at Centre College. Two institutions, Alice Lloyd College and Berea College, provide free tuition to low-income students from much of the Appalachian region as a part of their special missions. The state's independent institutions enroll approximately 23,000 students, accounting for about 13 percent of the state's total postsecondary enrollment of nearly 159,000 students. Fall 1999 headcount enrollments ranged from 509 students at Alice Lloyd College to 2,818 students at Bellarmine University. Exhibit 3-1 provides a synopsis of key institutional characteristics, including location, enrollments, and annual undergraduate tuition.

EXHIBIT 3-1
ASSOCIATION OF INDEPENDENT KENTUCKY COLLEGES AND UNIVERSITIES

Institution	City	County	Carnegie Class	Headcount Enrollment Fall 1999	Control	Program	Highest Degree Granted	2000-2001 Annual Tuition & Fees (Undergraduate)
Alice Lloyd College	Pippa Passes	Knott	Baccalaureate General	509	Independent Non-Profit	Liberal Arts & General Education; Teacher Preparatory	Bachelor's	$0
Asbury College	Wilmore	Jessamine	Baccalaureate General	1,329	Independent Non-Profit	Liberal Arts & General Education; Teacher Preparatory	Bachelor's	$13,744
Bellarmine University	Louisville	Jefferson	Master's I	2,818	Independent Non-Profit	Liberal Arts & General Education; Teacher Preparatory; Professional	Master's	$13,590
Berea College	Berea	Madison	Baccalaureate Liberal Arts	1,550	Independent Non-Profit	Liberal Arts & General Education; Teacher Preparatory; Professional	Bachelor's	$0
Brescia University	Owensboro	Daviess	Baccalaureate General	720	Independent Non-Profit	Liberal Arts & General Education; Teacher Preparatory	Master's	$9,390
Campbellsville University	Campbellsville	Taylor	Master's II	1,615	Independent Non-Profit	Liberal Arts & General Education; Teacher Preparatory; Professional	Master's	$8,790
Centre College	Danville	Boyle	Baccalaureate Liberal Arts	1,022	Independent Non-Profit	Liberal Arts & General Education; Teacher Preparatory	Bachelor's	$16,900
Cumberland College	Williamsburg	Whitley	Master's II	1,662	Independent Non-Profit	Liberal Arts & General Education; Teacher Preparatory	Master's	$9,920
Georgetown College	Georgetown	Scott	Baccalaureate Liberal Arts	1,672	Independent Non-Profit	Liberal Arts & General Education; Teacher Preparatory	Master's	$12,140
Kentucky Christian College	Grayson	Carter	Baccalaureate General	564	Independent Non-Profit	Liberal Arts & General Education	Bachelor's	$7,360
Kentucky Wesleyan College	Owensboro	Daviess	Baccalaureate General	748	Independent Non-Profit	Liberal Arts & General Education; Teacher Preparatory	Bachelor's	$10,070
Lindsey Wilson College	Columbia	Adair	Baccalaureate Liberal Arts	1,415	Independent Non-Profit	Liberal Arts & General Education; Teacher Preparatory	Master's	$9,648
Midway College	Midway	Woodford	Baccalaureate Associate's	816	Independent Non-Profit	2-year Principally Bachelor's Creditable; Liberal Arts & General; Teacher Preparatory	Bachelor's	$9,600
Pikeville College	Pikeville	Pike	Baccalaureate General	950	Independent Non-Profit	Liberal Arts & General Education; Teacher Preparatory	Doctoral	$11,140*
St. Catharine College	St Catharine	Washington	Associate's	477	Independent Non-Profit	Occupational; 2-Year Principally Bachelor's Creditable	Associate's	$6,000
Spalding University	Louisville	Jefferson	Master's I	1,710	Independent Non-Profit	Liberal Arts & General Education; Teacher Preparatory; Professional	Doctoral	$11,400
Thomas More College	Crestview Hills	Kenton	Baccalaureate General	1,456	Independent Non-Profit	Liberal Arts & General Education; Teacher Preparatory; Professional	Master's	$12,300
Transylvania University	Lexington	Fayette	Baccalaureate Liberal Arts	1,072	Independent Non-Profit	Liberal Arts & General Education; Teacher Preparatory	Bachelor's	$15,270
Union College	Barbourville	Knox	Specialized Teachers	855	Independent Non-Profit	Liberal Arts & General Education; Teacher Preparatory	Master's	$11,120

Sources *2001 Higher Education Directory*
CPE Fall 1999 Enrollment Report

* Includes room and board

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3.3 Public Universities

Kentucky has eight public universities, including two designated as research institutions and six designated as comprehensive institutions. (See Exhibit 3-2.) The research universities include the University of Kentucky in Lexington and the University of Louisville. The University of Kentucky has governing authority over Lexington Community College, which enrolled nearly 7,000 students in fall 1999. The regional universities are located strategically throughout the state, although there is less of a presence in the southeast region of the Commonwealth. Over 106,000 students were enrolled in the public universities in fall 1999, including nearly 85,000 undergraduates. The universities range in size from nearly 2,400 students at Kentucky State University to nearly 24,000 at the University of Kentucky. Annual tuition and fees for public universities ranged from $2,300 at Kentucky State University to $3,296 at the University of Kentucky for the 1999-2000 academic year. In total, the public universities have annual operating revenues of more than $2 billion, of which $1.1 billion is funded through state appropriations. A board of trustees composed of gubernatorial appointees governs each public university. Additionally, the Council on Postsecondary Education coordinates public postsecondary institutions with advice and oversight from the Strategic Committee on Postsecondary Education.

3.4 Public Community and Technical Colleges

The Kentucky Community and Technical College System consists of 13 community colleges and 15 technical colleges. (See Exhibit 3-3.) Geographically, these institutions are evenly distributed throughout the Commonwealth. In 1999, approximately 46,000 students were enrolled in credit courses throughout the system

EXHIBIT 3-2
PUBLIC UNIVERSITIES IN KENTUCKY

Institution	City	County	Carnegie Class	Headcount Enrollment Fall 1999	Control	Program	2000-2001 Annual Tuition & Fees (Undergraduate)	Highest Degree Granted
Eastern Kentucky University	Richmond	Madison	Master's I	13,274	State	Occupational; Liberal Arts & General; Teacher Prep; Professional	$2,542	Master's
Kentucky State University	Frankfort	Franklin	Master's II	2,277	State	Liberal Arts & General; Teacher Preparatory	$2,440	Master's
Morehead State University	Morehead	Rowan	Master's I	6,645	State	Occupational; Liberal Arts & General; Teacher Prep; Professional	$2,510	Master's
Murray State University	Murray	Calloway	Master's I	7,299	State	Liberal Arts & General; Teacher Preparatory; Professional	$2,556	Master's
Northern Kentucky University	Highland Heights	Campbell	Master's I	10,672	State	Liberal Arts & General; Teacher Preparatory; Professional	$2,700	Master's
University of Kentucky	Lexington	Fayette	Doctoral/Research Ext	16,847	State	Liberal Arts & General; Teacher Preparatory; Professional	$3,446	Doctoral/Post-Doctoral
Lexington Community College	Lexington	Fayette	Associate's	6,807	State (University of Kentucky)	Occupational; 2-Year Principally Bachelor's Creditable	$1,956	Associate's
University of Louisville	Louisville	Jefferson	Doctoral/Research Ext	14,710	State	Occupational; Liberal Arts & General; Teacher Prep; Professional	$3,608	Doctoral/Post-Doctoral
Western Kentucky University	Bowling Green	Warren	Master's I	12,921	State	Occupational; Liberal Arts & General; Teacher Prep; Professional	$2,534	Master's

Sources: *2001 Higher Education Directory*
CPE Fall 1999 Enrollment Report
CPE Tuition Data

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EXHIBIT 3-3
KENTUCKY COMMUNITY AND TECHNICAL COLLEGE SYSTEM

Institution	City	County	Carnegie Class	Headcount Enrollment Fall 1999	Control	Program	2000-2001 Annual Tuition & Fee (Undergraduate)
COMMUNITY COLLEGES							
Ashland Community College	Ashland	Boyd	Associate's	2,440	State	Occupational; 2-Year Principally Bachelor's Creditable	$1,230
Elizabethtown Community College	Elizabethtown	Hardin	Associate's	3,535	State	Occupational; 2-Year Principally Bachelor's Creditable	$1,230
Hazard Community College	Hazard	Perry	Associate's	2,244	State	Occupational; 2-Year Principally Bachelor's Creditable	$1,230
Henderson Community College	Henderson	Henderson	Associate's	1,176	State	Occupational; 2-Year Principally Bachelor's Creditable	$1,230
Hopkinsville Community College	Hopkinsville	Christian	Associate's	2,449	State	Occupational; 2-Year Principally Bachelor's Creditable	$1,230
Jefferson Community College	Louisville	Jefferson	Associate's	8,398	State	Occupational; 2-Year Principally Bachelor's Creditable	$1,230
Madisonville Community College	Madisonville	Hopkins	Associate's	1,742	State	Occupational; 2-Year Principally Bachelor's Creditable	$1,230
Maysville Community College	Maysville	Mason	Associate's	1,278	State	Occupational; 2-Year Principally Bachelor's Creditable	$1,230
Owensboro Community College	Owensboro	Daviess	Associate's	2,134	State	Occupational; 2-Year Principally Bachelor's Creditable	$1,230
Paducah Community College	Paducah	McCracken	Associate's	2,933	State	Occupational; 2-Year Principally Bachelor's Creditable	$1,230
Prestonsburg Community College	Prestonsburg	Floyd	Associate's	2,462	State	Occupational; 2-Year Principally Bachelor's Creditable	$1,230
Somerset Community College	Somerset	Pulaski	Associate's	2,407	State	Occupational; 2-Year Principally Bachelor's Creditable	$1,230
Southeast Community College	Cumberland	Harlan	Associate's	2,343	State	Occupational; 2-Year Principally Bachelor's Creditable	$1,230

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EXHIBIT 3-3 (Continued)
KENTUCKY COMMUNITY AND TECHNICAL COLLEGE SYSTEM

Institution	City	County	Carnegie Class	Headcount Enrollment Fall 1999	Control	Program	2000-2001 Annual Tuition & Fees (Undergraduate)
TECHNICAL COLLEGES							
Ashland Technical College	Ashland	Boyd	N/A	517	State	Occupational/Technical Emphasis	$960
Bowling Green Technical College/KATI	Bowling Green	Warren	N/A	1,093	State	Occupational/Technical Emphasis	$960
Central Kentucky Technical College	Lexington	Fayette	N/A	1,041	State	Occupational/Technical Emphasis	$960
Cumberland Valley Technical College	Pineville	Bell	N/A	863	State	Occupational/Technical Emphasis	$960
Elizabethtown Technical College	Elizabethtown	Hardin	N/A	507	State	Occupational/Technical Emphasis	$960
Hazard Technical College	Hazard	Perry	N/A	403	State	Occupational/Technical Emphasis	$960
Jefferson Technical College	Louisville	Jefferson	N/A	1,392	State	Occupational/Technical Emphasis	$960
Laurel Technical College	London	Laurel	N/A	432	State	Occupational/Technical Emphasis	$960
Madisonville Technical College	Madisonville	Hopkins	N/A	499	State	Occupational/Technical Emphasis	$960
Mayo Technical College	Paintsville	Johnson	N/A	655	State	Occupational/Technical Emphasis	$960
Northern Kentucky Technical College	Covington	Kenton	N/A	728	State	Occupational/Technical Emphasis	$960
Owensboro Technical College	Owensboro	Daviess	N/A	779	State	Occupational/Technical Emphasis	$960
Rowan Technical College	Morehead	Rowan	N/A	392	State	Occupational/Technical Emphasis	$960
Somerset Technical College	Somerset	Pulaski	N/A	431	State	Occupational/Technical Emphasis	$960
West Kentucky Technical College	Paducah	McCracken	N/A	762	State	Occupational/Technical Emphasis	$960

Sources *2001 Higher Education Directory*
CPE Fall 1999 Enrollment Report
CPE Tuition Data

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and 94,000 were enrolled in non-credit training for business and industry. Institutional enrollments range from 400 students at Rowan Technical College to 8,400 students at Jefferson Community College. The annual operating budget for the system is approximately $374 million. The institutions have a consolidated governing board of 14 Regents. Additionally, the Council on Postsecondary Education coordinates all public institutions with advice and oversight from the Strategic Committee on Postsecondary Education.

3.5 Cost to the State for Students by Sector

According to CPE data[3], the state subsidy per FTE student in the comprehensive public universities in Kentucky for 1998-1999 ranged from $3,685 per FTE (Northern Kentucky University) to $9,601 per FTE (Kentucky State University). On average, the state provides a $5,100 subsidy to each full-time student attending a public comprehensive institution. In addition to this funding, the state awards financial aid to individual students, pushing the average state subsidy per FTE to about $5,500. In comparison, the independent colleges and universities receive no state appropriation to support operating expenditures. State funding is appropriated to students to assist with educational expenses. On average, the state spends approximately $800 per independent college FTE through state-funded financial aid programs.[4] This includes funding for the Kentucky Tuition Grant, the College Access Program, the Teacher Scholarship Program, and the Kentucky Educational Excellence Scholarship. These kinds of student financial aid policies are critical to independent institutions and their students since they must rely on tuition rather than state subsidies to cover the standard costs of educating students.

[3] State Support per FTE – Comprehensive Universities, Fiscal Year 1998-1999.
[4] *Report on State Assistance Programs Benefiting Independent Colleges and Universities and Their Students*, National Association of Independent College & Univ. State Executives, (1999).

4.0 CONTRIBUTIONS OF THE KENTUCKY INDEPENDENT SECTOR OF HIGHER EDUCATION

4.0 CONTRIBUTIONS OF THE KENTUCKY INDEPENDENT SECTOR OF HIGHER EDUCATION

This chapter reflects briefly on the value of independent higher education from a national perspective and then focuses specifically on the important contributions of the 19 AIKCU independent institutions in serving the higher education needs of the Commonwealth.

4.1 Contributions of Independent Higher Education Nationally

Dating back to the colonial era, independent colleges and universities in the United States have established a long and rich history. The nation's independent institutions have provided quality education to meet the needs and interests of a population that is diverse in culture, race, religion, and philosophy. Many of the institutions have a dominant or even exclusive focus on undergraduate education and the liberal arts curriculum, preparing well-rounded scholars, employees, and citizens for an increasingly complex society. In general, independent colleges and universities have established a culture that encourages student and faculty interaction and involvement for learning that takes place inside the classroom as well as outside the classroom. Most independent colleges are relatively small, and by virtue of their size, they often can respond more rapidly to change by eliminating ineffective or outdated programs and policies. Clearly, the independent sector is a place of quality undergraduate education, student-centered learning, and organizational innovation.

Independent colleges and universities provide diversity and choice, hallmarks that distinguish American higher education from other nations while making it the envy of the world. Vastly different in size, academic offerings, and institutional missions, independent colleges and universities allow students to pursue their dreams in

educational environments that offer personal attention, including lower student-to-faculty ratios and increased opportunities to participate in academic and cocurricular activities.

Today, 1,600 independent institutions in the U.S. educate nearly three million graduate and undergraduate students while awarding 31 percent of all degrees in the nation. These colleges and universities enroll similar proportions of minority, low-income, and first-generation college students similar to those proportions at public four-year institutions. Additionally, 65 percent of the students who earn undergraduate degrees from independent institutions complete their educational requirements in four years as compared with only 34 percent in public institutions. Clearly, the independent sector plays a crucial role in providing access to higher education.

Independent institutions serve the public interest in other ways such as increasing scientific and technical knowledge, enhancing economic productivity, and saving taxpayer dollars. Independent colleges and universities annually attract more than $10 billion of federal research funding while developing innovative ways to improve quality of life.[1] The viability of the independent sector also plays a significant role in local economies. With revenues estimated at $87 billion in 2000, the cumulative impact of independent college and universities on local communities exceeded $215 billion.[2] Furthermore, independent institutions across the nation employ three-quarters of a million people.[3] Oftentimes independent colleges and universities are the single largest private employers in their local communities. Of major importance is the fact that independent colleges and universities serve state interests by providing higher education opportunities at significant cost savings to taxpayers. **If states were to**

[1] National Association of Independent Colleges and Universities, 2001.
[2] Ibid.
[3] Ibid.

assume responsibility for educating students now attending independent colleges and universities, the additional burden for U.S. taxpayers would exceed $13 billion annually.[4]

4.2 Contributions of the Kentucky Independent Higher Education Sector

The 19 AIKCU institutions have a long history of providing quality educational opportunities in Kentucky. Many of these colleges and universities predate state-supported higher education and have provided access in areas of the state and to populations that have traditionally been underserved. In fact, 11 of the 19 AIKCU institutions were established prior to the year 1900. (See Exhibit 4-1.) Additionally, the AIKCU institutions have an enviable record of retaining and graduating students, a positive impact on the state and local economies, and an impressive list of accolades and national rankings that bring recognition and visibility to the Commonwealth. All of these contributions, as described in greater detail below, serve the needs and interests of the state.

4.2.1 Access

As outlined earlier in Chapter 2, a critical link exists between the postsecondary education level of a state's population and the state's per capita income. Therefore, it is essential to the success of Kentucky's citizens and to the state's economy as a whole, that adequate postsecondary opportunities are provided to citizens of the state.

[4] Ibid.

EXHIBIT 4-1
KENTUCKY COLLEGES AND UNIVERSITIES ESTABLISHED PRIOR TO 1900

Institution and Year of Establishment by Sector	
Independent	**Public**
Transylvania University (1780)	University of Louisville* (1798)
Spalding University (1814)	University of Kentucky (1865)
Centre College (1819)	Kentucky State University (1886)
Georgetown College (1829)	
Midway College (1847)	* Originally an independent college
Berea College (1855)	Until well into the 20th century.
Kentucky Wesleyan College (1858)	
Union College (1879)	
Cumberland College (1889)	
Pikeville College (1889)	
Asbury College (1890)	

Service to Kentucky Residents. The AIKCU institutions have, over time, served and continue to serve as important providers of postsecondary education opportunity in the state. AIKCU institutions enroll 12 percent of all two- and four-year degree-seeking students and 20 percent of all four-year degree-seeking students. Additionally, CPE data indicate that AIKCU institutions enroll 14 percent of the in-state only first-time freshmen. This evidence indicates that, contrary to popular notion, the AIKCU institutions are enrolling a significant share of the Kentucky undergraduate students.

Geographical Access. The AIKCU institutions provide geographical access to postsecondary opportunities in a state that historically has been underserved in certain regions. As illustrated in Exhibit 4-3, the 19 AIKCU colleges and universities are distributed throughout the state with the extreme western part of Kentucky being the only area of the state without an independent institution. The independent institutions provide

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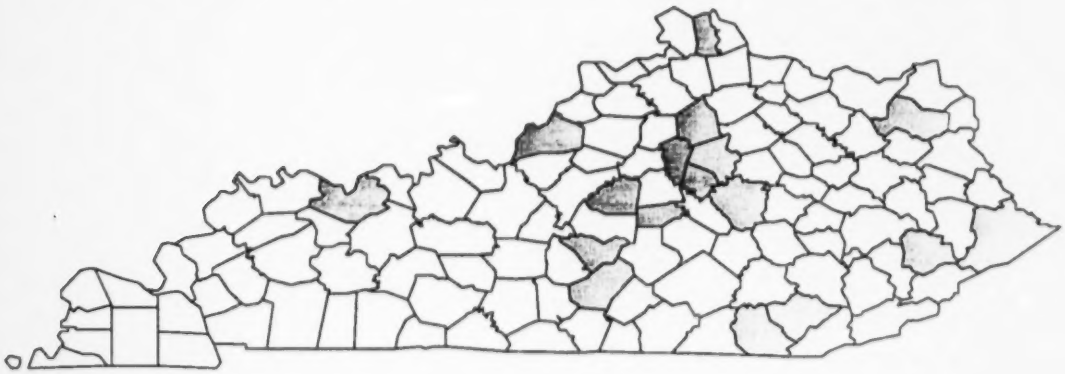
the state with geographical access that would cost millions of state dollars and many years to duplicate.

EXHIBIT 4-2
LOCATIONS OF KENTUCKY'S INDEPENDENT COLLEGES AND UNIVERSITIES



Access to Underserved Areas and Population. The AIKCU institutions also provide access to higher education opportunities for traditionally underserved populations in the state. Exhibit 4-4 shows that 15 independent institutions are located in or adjacent to a county that is designated by the Council on Postsecondary Education as underserved. In contrast to the notion that independent institutions serve the intellectual and financial elite, the AIKCU institutions have demonstrated a commitment to serving all citizens of the state. Exhibit 4-5 indicates that 20 percent of the students in the AIKCU institutions are from underserved counties as compared with 18 percent of the students in the public universities. In some underserved counties, Kentucky's independent institutions serve as high as 59 percent of the total resident undergraduate students. Additionally, 70 percent of the students enrolled in independent institutions receive need-based financial aid, indicating that many are from low- to middle-income families.

The state's independent institutions offer the advantage of being fully equipped to provide educational opportunities to underserved populations. Some concentrate almost totally on underserved populations, limiting admissions primarily to first generation college students from low-income families (e.g., Alice Lloyd College and Berea College). A full range of student programs and services complement the specialized missions of these institutions. The overall environment and educational experiences of these colleges are intentionally designed to support at-risk students through degree completion.

EXHIBIT 4-3
INDEPENDENT INSTITUTIONS LOCATED IN OR ADJACENT TO UNDERSERVED KENTUCKY COUNTIES

INSTITUTION	INDEPENDENT INSTITUTION LOCATED IN	UNDERSERVED COUNTIES ADJACENT TO
Alice Lloyd College	Knott*	Breathitt, Letcher, Magoffin, Perry, and Pike
Bellarmine University	Jefferson	Spencer
Berea College	Madison	Estill, Jackson, and Rockcastle
Brescia University	Daviess	McClean and Ohio
Campbellsville University	Taylor	Adair, Casey, and Green
Centre College	Boyle	Casey and Lincoln
Cumberland College	Whitley*	Bell, Knox, Laurel, and McCreary
Georgetown College	Scott	Grant and Owen
Kentucky Christian College	Carter*	Elliot, Lawrence, and Lewis
Kentucky Wesleyan College	Daviess	McLean and Ohio
Lindsey Wilson College	Adair*	Casey, Green, Metcalfe, and Russell
Pikeville College	Pike*	Knott, Letcher, and Martin
Spalding University	Jefferson	Spencer
Thomas More University	Kenton	Grant and Pendleton
Union College	Knox*	Bell, Laurel, and Whitley

*Indicates that the independent institution is located in a county designated by the CPE as underserved.

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EXHIBIT 4-4
NUMBER AND PERCENTAGE OF STUDENTS FROM UNDERSERVED COUNTIES BY SECTOR FALL 1998

Targeted Counties	Public Institutions				Independent	%	Total
	Universities	%	Community	%			
Adair	234	35%	39	6%	393	59%	666
Allen	339	76%	0	0%	109	24%	448
Ballard	129	46%	142	51%	8	3%	279
Bath	281	94%	7	2%	12	4%	300
Bell	271	27%	601	60%	128	13%	1,000
Bracken	158	51%	128	41%	25	8%	311
Breathitt	320	46%	360	52%	17	2%	697
Breckenridge	259	50%	174	34%	80	16%	513
Butler	261	83%	32	10%	22	7%	315
Caldwell	287	58%	184	37%	25	5%	496
Carter	444	59%	258	34%	55	7%	757
Casey	235	54%	130	30%	74	17%	439
Clay	454	72%	80	13%	96	15%	630
Clinton	146	50%	122	42%	23	8%	291
Crittenden	159	48%	151	46%	18	5%	328
Edmonson	261	94%	10	4%	8	3%	279
Elliott	164	83%	21	11%	13	7%	198
Estill	348	92%	13	3%	17	4%	378
Fleming	268	60%	163	36%	18	4%	449
Fulton	133	90%	9	6%	5	3%	147
Gallatin	95	70%	22	16%	18	13%	135
Grant	354	77%	30	7%	73	16%	457
Graves	720	62%	427	37%	20	2%	1,167
Grayson	342	56%	222	36%	46	8%	610
Green	157	43%	51	14%	156	43%	364
Hart	335	78%	66	15%	28	7%	429
Hickman	102	74%	36	26%	0	0%	138
Jackson	217	74%	35	12%	40	14%	292
Johnson	510	55%	350	38%	70	8%	930
Knott	282	35%	417	52%	108	13%	807
Knox	549	71%	120	15%	108	14%	777
Laurel	1,008	62%	382	24%	228	14%	1,618
Lawrence	222	46%	230	48%	32	7%	484
Lee	134	49%	86	31%	54	20%	274
Leslie	199	40%	278	56%	22	4%	499
Letcher	396	35%	651	57%	97	8%	1,144
Lewis	214	57%	142	38%	18	5%	374
Lincoln	366	73%	62	12%	76	15%	504
Lyon	132	63%	69	33%	9	4%	210
Magoffin	264	56%	186	40%	18	4%	468
Marion	209	43%	240	50%	34	7%	483
Mason	345	45%	378	49%	47	6%	770
McCreary	141	27%	262	50%	124	24%	527
McLean	159	40%	153	38%	89	22%	401
Menifee	109	89%	3	2%	11	9%	123
Metcalfe	182	83%	1	0%	36	16%	219
Morgan	405	95%	6	1%	17	4%	428
Muhlenberg	615	53%	476	41%	64	6%	1,155
Nicholas	93	52%	68	38%	18	10%	179
Ohio	334	50%	272	41%	61	9%	667
Owen	157	69%	33	15%	37	16%	227
Owsley	77	41%	99	52%	14	7%	190
Pendleton	260	80%	30	9%	34	10%	324
Perry	478	35%	770	56%	118	9%	1,366
Pike	1,081	46%	648	27%	641	27%	2,370
Powell	218	81%	28	10%	24	9%	270
Rockcastle	229	59%	85	22%	72	19%	386
Russell	233	38%	203	33%	182	29%	618
Spencer	120	62%	40	19%	40	19%	209
Trimble	81	60%	45	34%	8	6%	134
Union	260	46%	265	47%	35	6%	560
Wayne	256	47%	234	43%	55	10%	545
Whitley	725	55%	93	7%	498	38%	1,316
Wolfe	166	63%	91	34%	7	3%	264
Total Underserved	**18,691**	**54%**	**11,009**	**32%**	**4,633**	**13%**	**34,333**
Total Sector Enrollments	106,803	61%	45,529	26%	23,252	13%	175,584
Underserved as % of Total Sector Enrollments	-	**18%**	-	**24%**	-	**20%**	**20%**

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Access to High Quality Liberal Arts Education. AIKCU institutions also provide Kentuckians and out-of-state students with access to nationally recognized academic programs grounded in the liberal arts. Their programs emphasize high quality academics and a commitment to educating the whole person for a life of professional success, leadership, service, and citizenship. Approximately one-fourth of AIKCU enrollment is drawn from out-of-state, testifying to the quality and accessibility of the programs. These students often remain in the state after graduation, thus contributing to their communities and the workforce. Professors are frequently recognized with state and national awards for the quality of their teaching and scholarship. AIKCU colleges regularly produce Fulbright, Rhodes, and other award-winning scholars. Historically, these institutions have provided high quality educational opportunities for citizens of the Commonwealth, and they continue to do so today.

4.2.2 Retention and Degree Completion Rates

Although providing access is essential, perhaps the best measure of the value of independent institutions to the state lies in an analysis of degree production by the independent sector. The AIKCU institutions have a distinguished record of student retention and degree completion rates. **While enrolling 20 percent of the four-year students in Kentucky, the state's independent colleges and universities award 22 percent of all baccalaureate degrees conferred in the state.** As seen in Exhibit 4-6, the higher degree productivity of the independent institutions in Kentucky has been consistent over the last decade.

EXHIBIT 4-5
KENTUCKY UNDERGRADUATE DEGREE COMPLETIONS
ACADEMIC YEARS 1991, 1995, 1998

	Undergraduate Degree Completions						
	AIKCU	%	Public	%	Other*	%	Total
1998-1999	3,321	22%	12,012	78%	65	0.4%	15,398
1995-1996	2,895	20%	11,609	80%	88	0.6%	14,592
1991-1992	2,797	20%	11,060	80%	50	0.4%	13,907

Source: Integrated Postsecondary Education Data System (IPEDS)
*Other individual institutions not affiliated with AIKCU.

Although the reasons are complex and varied, recent literature on student persistence suggests that a number of environmental factors are related to degree attainment[5], including some that are inherent to the AIKCU colleges and universities:

- Small Institution and Class Size – Attendance at a small college or university tends to facilitate greater involvement with peers and faculty which, in turn, positively influences degree completion and pursuit of graduate or professional education.
- Supportive Student Services – Research also suggests that degree completion may be a function of the extent to which students are supported by effective student services, including orientation, academic advising, and tutoring.
- Interaction with Faculty – Student interaction with faculty members has a positive effect on degree completion and pursuit of graduate or professional education.
- Peer Relationships and Cocurricular Involvement–Research indicates that interaction with peers and participation in cocurricular activities have an impact on degree completion.
- Residential Facilities and Programs – Students who live on campus are more likely to interact with others, to be involved in cocurricular activities, and to use campus facilities and resources. Since a clear relationship between persistence and involvement on campus has been established, it is not surprising that students who live on campus have an advantage in degree completion.

[5] Pascarella, E.T., & Terenzini, P.T. (1991). *How college affects students: Findings and insights from twenty years of research.* San Francisco: Jossey-Bass Publishers.

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This line of research suggests that the personalized and well-structured academic and social environments of independent institutions are influential in promoting student retention and degree completion.

4.2.3 Economic Impact

The 19 AIKCU institutions have a marked impact on the state and local economies through high-quality programs that are in line with state needs, initiatives that target non-traditional student enrollments, partnerships with federal and local governments, and vitalization of local economies.

Production Professional Workers for Kentucky. AIKCU institutions serve the state's needs through the conferral of degrees in high need academic program areas such as teacher education and nursing. In particular, the AIKCU institutions play a leadership role in the development of educators through their well-respected teacher preparation programs as well as graduate and professional development opportunities. **All of the AIKCU institutions offer undergraduate degrees in teacher education,[6] and cumulatively they produce 23 percent of all education degrees conferred in the state.** Additionally, six of the AIKCU institutions offer graduate degrees in education. The faculty of independent colleges and universities currently serve in leadership roles on the state's Education and Professional Standards Board (i.e., the entity that licenses teacher preparation programs and teachers), the Kentucky Association of Teacher Preparation Programs, and the Kentucky Board of Education.

The independent institutions also produce significant percentages of Kentucky baccalaureate graduates in high need areas such as nursing (27

[6] Although St. Catharine College is a two-year institution, it does offer the Associate in Arts and the Associate of Applied Science in several education programs.

percent) and the sciences, including biology (38 percent), physics (36 percent), chemistry (28 percent), and mathematics (25 percent)[7].

Initiatives for Nontraditional and Working Students. A number of the AIKCU colleges and universities have been involved in local initiatives to enroll adult and working students in academic degree programs, continuing education, and corporate training. The following examples highlight just a few of these initiatives:

- Midway College, Brescia University, and Lindsey-Wilson College have developed weekend and/or evening programs to meet the needs of working adults.
- Thomas More College has developed a Continuing Education program to promote lifelong learning in the region and a partnership to provide corporate training for ComAir.
- St. Catharine College has developed partnerships with local industries to provide workforce development training.
- Several institutions (e.g., Campbellsville University, Georgetown College, Pikeville College) offer on-line or other distance learning courses for time- or place-bound students.

Government and Community Partnerships. The AIKCU institutions are currently engaged in partnerships and contractual relationships that serve governmental purposes and benefit local communities. For example:

- TRIO Programs – Funded under Title IV of the Higher Education Act of 1965, this series of programs was established by Congress to assist low-income students who enroll in and graduate from college. A number of the AIKCU institutions serve as providers of these federal programs (e.g., Berea College and Brescia University).
- Partners in Education (PIE) – This Berea College intervention program was established for K-12 students to enhance their opportunities for college attendance. The program is now nationally funded (Gear Up) to reach all students, grades 6-8, in Rockcastle County—one of the 66 underserved counties in Kentucky.
- eMain Project – Bellarmine University is a partner with the City of Louisville and the State in the eMain development project. The goal is to create a premier physical location (mixed-use business

[7] Based on CPE data for the 1997-98 academic year.

neighborhood) in a creative urban atmosphere for businesses and individuals who want to thrive in the virtual marketplace.

- Technology – Campbellsville University is an active participant in Team Taylor County which is a partnership consisting of the University, the City of Campbellsville, Taylor County government, Campbellsville-Taylor County Industrial Development Authority, and local schools. The partnership includes construction and development of the University's new Technology Training Center, which will provide both the campus and the community at large with state-of-the-art technology access and infrastructure. Business and industry will utilize the Center's facilities as well. The University hosts a CenterNet site that is part of the Center for Rural Development's network of video conferencing sites. The University is also taking the lead in facilitating efforts and exploring means to make the local community a "wired community."

- Services – Kentucky Christian College reaches out to their community, businesses, and industries to meet local internet and technology needs. The college, through a subsidiary organization, provides ISP and other technology services to a three county region in Eastern Kentucky. These services are offered free of charge to local churches and charities.

- Research and Science – Kentucky Wesleyan College has a three-year contract with the Environmental Protection Agency for water quality monitoring conducted by faculty in the Biology and Chemistry departments. The College has also received National Science Foundation funding to develop an Environmental Impact Assessment course and has been included with several other Kentucky institutions in a proposal for funding from the National Institutes of Health to build a Biomedical Research Infrastructure Network.

- Arts and Humanities – Transylvania University will continue to serve as host for the Governor's School for the Arts through 2002. This highly selective summer program attracts some of the state's most creative high school students for participation in one of seven areas: drama, visual art, vocal music, instrumental music, dance, musical theater, or creative writing. Centre College has served as a long-time host of the Governor's Scholars Program, a highly-selective summer program for high school seniors. Students are engaged throughout the summer in a range of academic areas.

State and Local Economies. In addition, the AIKCU colleges and universities contribute to their state and local economies by offering employment opportunities and by bringing consumer, grant, donor, and contract dollars into their communities. In total,

the AIKCU institutions employ an estimated 5,000 individuals and, with combined annual revenues of $500 million, they contribute an estimated $1.75 billion per year to the state economy.

4.2.4 Cost Savings to the State

The existence of a healthy independent sector of higher education is a tremendous financial benefit to the state. Through the state-funded need-based financial aid programs and the new KEES program, Kentucky provides awards (of about $800 per FTE student per year) to students who are educated in the independent sector. In contrast, the state provides a subsidy of about $5,500 (appropriations and state financial aid) for every student attending a public comprehensive university. **This translates into taxpayer savings of more than $97 million per year for the education of undergraduates alone in the Commonwealth. In essence, the AIKCU colleges and universities are the most cost-effective means available to the state for delivering higher education to the citizens of Kentucky.**

4.2.5 Visibility and Recognition to the State

Like their public sector counterparts, the AIKCU institutions bring visibility and recognition to the Commonwealth through the many accomplishments and accolades bestowed on their faculty, students, and programs. For example:

- Over the years, AIKCU institutions such as Georgetown College and Centre College have educated a significant number of Fulbright and Rhodes Scholars.
- Many of the AIKCU institutions have been recognized for quality academic programs in the rankings of publications such as *U.S. News and World Report* and *Money Magazine*.
- The eyes of the nation were recently on Centre College as the host site of the 2000 Vice Presidential Debate.

- The School of Osteopathic Medicine at Pikeville College is one of only 19 in the country. This spring it readies to graduate its first class, most of whom will begin residency programs in rural, underserved areas of the state.

- The John B. Begley Chapel at Lindsey Wilson College was designed by award-winning architect E. Fay Jones, apprentice to Frank Lloyd Wright. The chapel, which is the eighth designed by Jones, was a gift from anonymous donors.

- The distinctive mission and educational programs of Berea College have attracted widespread recognition and acclaim. *The New York Times*, *The Chronicle of Higher Education*, *The Philadelphia Inquirer*, *The Times* of London, and the "Solutions" segment of ABC World News have focused national and international attention on many aspects of the contemporary Berea experience.

- AIKCU institutions boast a number of nationally ranked athletic teams. The men's basketball team at Kentucky Wesleyan College has won seven national championships, the only institution in NCAA history to win this title in each of the past four decades. The Georgetown football team took home the NAIA national championship last fall, the second in three years. And, the Lindsey Wilson men's soccer team has won the NAIA national championship 5 out of the last 7 years.

4.3 *Role of the Independent Sector in a Statewide System of Higher Education*

It takes a strong public sector and a strong independent sector working in concert to provide a quality statewide system of higher education. The AIKCU institutions of Kentucky have long contributed to the needs and interests of the state, thus demonstrating that the independent sector is a vital part of the overall system of higher education in Kentucky.

5.0 THE ROLE OF INDEPENDENT INSTITUTIONS IN OTHER STATES

5.0 THE ROLE OF INDEPENDENT INSTITUTIONS IN OTHER STATES

Independent postsecondary education institutions have played a major historical role in educating students in the United States. The first colleges and universities in the nation were independent institutions and, for most of the first century of our nation's existence, independent institutions were the primary sources of postsecondary education. Today, independent institutions still provide a valuable service; however state governments around the nation are recognizing the value of partnerships with independent institutions, and increasingly, these colleges and universities are playing a key role in providing service to the state through partnerships, contracts and cooperative arrangements. This chapter addresses:

- the role that independent institutions play in other states;
- the benefits to other states in utilizing the independent sector; and
- specific examples of public policies to utilize the independent sector in other states.

5.1 Evolving Role of Independent Colleges and Universities

Beginning with the creation of the nation's land grant universities in the late nineteenth century, the U.S. began to create a major system of public colleges and universities funded primarily from state tax revenues. Over the ensuing years, the highly subsidized public institutions have come to dominate the postsecondary education market in many states, in some cases forcing independent institutions to close their doors. Smaller institutions, in particular, have had a difficult time coexisting with the highly subsidized public institutions. A recent *Newsweek* article (September 25, 2000) recounts that 52 small colleges have closed in the United States since 1986. Two colleges in Kentucky, Sue Bennett and Lees, have closed since 1994.

The states have varied widely in their recognition and utilization of the independent higher education sector. While visionary leaders in some states have intentionally adopted policies that draw on the strengths and assist with the growth of independent institutions, other states have adopted relatively neutral or even detrimental policies. These policies are not intentionally harmful to independent colleges and universities. Rather they are more often the result of an aggressive public higher education agenda that is concerned with increasing state and private funding as well as expanding enrollments, programs, facilities, and geographic accessibility. Though unquestionably worthy goals, state policymakers often disregard independent institutions as part of the vehicle for reaching these goals. In such cases, there is a missed opportunity on the part of governments to utilize the independent sector to deliver a range of postsecondary options in a manner that is efficient and cost-effective to the state and taxpayers.

Other states, however, have recognized the advantages of utilizing the independent sector as well as the public sector. States accomplish this by establishing policies that, while maintaining reasonable competition among all institutions, have attempted to level the playing field between independent and public institutions. These policies are explored later in this chapter.

5.2 *Independent Institutions Are a Major Contributor to the Postsecondary Education of the Nation's Students*

While the publicly funded sector of higher education has expanded over the past 40 years, independent institutions are still a major contributor to the postsecondary education of the nation's students. As shown in Exhibit 5-1, the nation has significantly more independent institutions than public institutions. In total, the U.S. has 1,679 independent institutions offering a baccalaureate or above degree compared to 602

EXHIBIT 5-1
NUMBERS OF DEGREE GRANTING INDEPENDENT AND PUBLIC INSTITUTIONS BY STATE, 1997-98

State	4-Year		2-Year		Total		Grand
	Public	Private	Public	Private	Public	Private	Total
Alabama	18	20	31	10	49	30	79
Alaska	3	3	1	1	4	4	8
Arizona	5	20	20	22	25	42	67
Arkansas	10	10	23	4	33	14	47
California	32	182	109	73	141	255	396
Colorado	13	24	15	18	28	42	70
Connecticut	6	19	12	5	18	24	42
Delaware	2	4	3	1	5	5	10
Florida	10	61	28	41	38	102	140
Georgia	20	41	36	7	56	48	104
Hawaii	3	7	7	3	10	10	20
Idaho	4	5	3	3	7	8	15
Illinois	12	94	49	17	61	111	172
Indiana	14	41	14	27	28	68	96
Iowa	3	37	17	7	20	44	64
Kansas	8 10	27 21	15 23	14 5	22 33	41 26	63 59
Kentucky	8	27	14	14	22	41	63
Louisiana	14	12	49	10	63	22	85
Maine	6	13	7	7	15	20	35
Maryland	13	22	20	3	33	25	58
Massachusetts	15	83	18	13	33	96	129
Michigan	15	59	29	7	44	66	110
Minnesota	11	38	46	20	57	58	115
Mississippi	9	11	22	4	31	15	46
Missouri	13	59	20	20	33	79	112
Montana	6	5	12	5	18	10	28
Nebraska	7	16	9	5	16	21	37
Nevada	2	3	4	5	6	8	14
New Hampshire	5	14	4	3	9	17	26
New Jersey	14	20	19	6	33	26	59
New Mexico	6	14	21	3	27	17	44
New York	42	170	47	60	89	230	319
North Carolina	16	43	58	4	74	47	121
North Dakota	6	4	9	2	15	6	21
Ohio	27	67	36	47	63	114	177
Oklahoma	14	14	16	2	30	16	46
Oregon	8	26	17	3	25	29	54
Pennsylvania	45	101	21	86	66	187	253
Rhode Island	2	9	1	0	3	9	12
South Carolina	12	23	21	5	33	28	61
South Dakota	8	10	6	1	14	11	25
Tennessee	10	44	14	15	24	59	83
Texas	41	56	68	29	109	85	194
Utah	5	4	4	8	9	12	21
Vermont	5	15	1	4	6	19	25
Virginia	15	40	24	13	39	53	92
Washington	8	26	33	5	41	31	72
West Virginia	13	10	4	7	17	17	34
Wisconsin	13	32	19	2	32	34	66
Wyoming	1	0	7	1	8	1	9
50 State Total	**502**	**1,679**	**1,091**	**663**	**1,693**	**2,342**	**4,035**

Source: National Center for Education Statistics, 1999 Digest of Education Statistics

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public institutions. Only at the two-year level does the number of public institutions exceed the number of independent institutions. As shown in Exhibit 5-2, independent institutions educate about 23 percent of the nation's postsecondary education students.

Some states, of course, have a much greater concentration of independent institutions than others. As shown in Exhibit 5-3, Vermont has 78.57 independent institutions per 1,000,000 population ages 18-44 and Pennsylvania has 40.7. Wyoming, on the other hand, has only 5.45 independent institutions per 1,000,000 population ages 18-44. Including not-for-profit, theological, and proprietary institutions, Kentucky has almost 26 independent institutions per 1,000,000 population ages 18-44.

As shown in Exhibit 5-2, Massachusetts has over 57 percent of its students enrolled in independent institutions and Pennsylvania almost 44 percent. Wyoming, Nevada, Alaska, New Mexico, Mississippi, and Kansas, on the other hand, have less than 10 percent of their students in independent institutions.

While independent institutions still play a major role in educating the nation's postsecondary education students, that role varies significantly among the states.

5.3 ***States With A Large Independent Postsecondary Education Sector Are Fortunate***

Independent institutions of postsecondary education are a tremendous benefit to those states that are both fortunate enough to have a strong independent sector and wise enough to effectively utilize the sector to meet their postsecondary education goals. A strong independent sector provides the states with:

- postsecondary education programs at a fraction of the costs that the state would have to pay to educate the same students in state owned institutions;
- the geographical accessibility essential to achieving a high college participation level at little or no capital costs to the state; and
- the intimate and supportive academic environments necessary to achieve minimum dropout rates which many public institutions have been unable to achieve.

EXHIBIT 5-2
PERCENTAGE OF POSTSECONDARY EDUCATION ENROLLMENTS IN PUBLIC AND INDEPENDENT INSTITUTIONS FOR ALL STATES, FALL 1997

State	Total Enrollment	%-Public 4-Year	%-Public 2-Year	%-Private	State Ranking
Massachusetts	412,620	24 8	17 6	57 7	1
Rhode Island	72,078	30 6	21 1	48 3	2
New Hampshire	63,811	40 7	14 5	44 7	3
New York	1,024,498	31 9	23 6	44 6	4
Vermont	36,482	44 0	12 3	43 7	5
Pennsylvania	588,185	39 7	17 2	43 1	6
Connecticut	153,128	35 7	26 3	37 9	7
Missouri	302,896	38 5	24 4	37 1	8
Maine	56,368	53 9	13 6	32 6	9
Iowa	180,967	37 2	33 6	29 2	10
Illinois	726,199	26 4	47 5	26 1	11
Hawaii	61,514	33 6	40 5	26 0	12
Utah	157,891	52 9	22 2	24 9	13
Minnesota	269,887	41 1	34 2	24 8	14
Ohio	537,169	48 6	26 8	24 7	15
Indiana	295,517	62 4	13 6	24 0	16
Georgia	306,238	53 4	23 4	23 3	17
Tennessee	249,805	46 6	30 8	22 5	18
Nebraska	111,542	49 2	31 0	19 8	19
New Jersey	325,754	42 6	37 6	19 8	20
North Carolina	373,717	42 6	38 3	19 2	21
Florida	658,259	32 5	48 7	18 8	22
Delaware	44,890	54 6	26 8	18 7	23
Idaho	61,641	67 0	14 5	18 5	24
Kentucky	**178,924**	**58.6**	**23.2**	**18.2**	**25**
Wisconsin	298,248	47 7	34 0	18 2	26
Virginia	364,904	46 9	35 7	17 4	27
Maryland	261,262	43 3	39 8	16 9	28
Michigan	549,742	47 9	35 5	16 6	29
South Dakota	39,042	71 5	12 6	15 8	30
South Carolina	176,278	49 0	35 3	15 7	31
Colorado	252,245	53 6	31 0	15 4	32
Oregon	169,852	38 6	46 4	15 0	33
California	1,958,200	26 3	58 7	15 0	34
Louisiana	219,196	67 6	18 7	13 7	35
West Virginia	87,965	78 9	7 6	13 5	36
Washington	315,281	28 3	58 8	12 9	37
Oklahoma	177,157	52 9	34 4	12 8	38
Texas	969,283	42 6	44 6	12 8	39
Montana	44,141	72 9	14 8	12 3	40
Alabama	218,785	55 8	32 9	11 3	41
Arizona	292,730	35 3	53 8	10 9	42
Arkansas	112,342	55 1	34 7	10 2	43
North Dakota	38,937	68 2	21 8	10 0	44
Kansas	177,544	48 6	41 5	9 9	45
Mississippi	130,561	47 5	43 5	9 0	46
New Mexico	108,060	45 2	47 6	7 2	47
Alaska	27,910	93 0	2 7	4 3	48
Nevada	76,417	41 5	54 5	4 1	49
Wyoming	30,280	36 6	60 7	2 7	50
50 States Weighted Average		**40.5**	**36.9**	**22.6**	-

Source: National Center for Education Statistics (1999). Table 199 - Total fall enrollment in degree-granting institutions, by control, type of institution, and state: 1996 and 1997. The Digest of Education Statistics [WWW document]. URL http://www.nces.ed.gov/pubs2000/digest99/d99t199.html

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EXHIBIT 5-3
NUMBER OF INSTITUTIONS OF POSTSECONDARY EDUCATION PER 1,000,000 TARGET AGE POPULATION IN THE FIFTY STATES, ARRANGED IN DESCENDING ORDER OF TOTAL INSTITUTIONS

State	Graduate/ Research Universities		Other 4-Year Institutions		2-Year Institutions		Total Institutions		Total per 1 Million TAP	National Rank
	Public	Private	Public	Private	Public	Private	Public	Private		
Vermont	4.14	-	16.54	82.03	4.14	16.54	24.81	78.57	103.38	1
South Dakota	3.61	-	25.30	36.15	21.69	3.61	50.61	39.76	90.37	2
Montana	6.17	-	12.33	15.41	36.99	15.41	55.49	30.83	86.31	3
North Dakota	8.05	-	16.10	16.10	36.23	8.05	60.38	24.15	84.53	4
Maine	2.01	2.01	14.06	24.11	14.06	14.06	30.14	40.18	70.32	5
New Mexico	2.99	-	5.97	20.91	31.36	4.48	40.32	25.39	65.71	6
Minnesota	0.93	0.53	5.27	19.51	24.28	10.55	30.08	30.59	60.65	7
Iowa	1.84	-	0.92	34.13	15.68	6.48	18.45	40.59	59.03	8
Nebraska	1.56	-	9.36	24.96	14.04	7.80	24.96	32.76	57.71	9
Kansas	2.88	-	6.73	20.18	22.10	4.80	31.71	24.98	56.69	10
Pennsylvania	1.09	1.31	8.70	20.67	4.57	18.72	14.36	40.70	55.06	11
Missouri	1.88	0.94	4.22	28.76	9.39	9.39	15.49	37.09	52.58	12
New Hampshire	2.01	4.01	8.03	24.08	8.03	8.02	18.06	34.12	52.18	13
Massachusetts	0.79	3.56	5.14	29.26	7.12	5.14	13.05	37.96	51.01	14
West Virginia	1.46	-	17.53	14.61	5.84	10.23	24.84	24.84	49.68	15
Wyoming	5.45	-	-	-	38.15	5.45	43.60	5.45	49.05	16
Arkansas	1.04	-	9.39	10.43	23.99	4.17	34.42	14.60	49.03	17
Louisiana	2.30	0.57	5.75	8.32	28.17	5.75	36.22	12.65	48.87	18
Alabama	2.29	-	8.01	11.44	17.73	5.72	28.02	17.15	45.17	19
New York	0.82	2.33	4.93	20.96	6.44	8.22	12.19	31.51	43.70	20
Colorado	3.11	0.62	4.98	14.31	9.33	11.20	17.42	26.13	43.55	21
Oregon	2.37	-	3.95	20.53	13.42	2.37	19.74	22.90	42.64	22
Hawaii	2.11	-	4.22	14.76	14.76	8.33	21.08	21.08	42.17	23
Mississippi	2.74	-	5.48	10.04	20.09	3.65	28.31	13.70	42.00	24
Indiana	2.11	0.42	3.79	16.85	5.90	11.38	11.80	28.65	40.45	25
Kentucky	1.36	-	3.79	17.66	8.94	7.94	13.89	31.59	35.78	26
Ohio	2.24	0.45	3.81	14.58	8.08	10.54	14.13	25.57	39.71	27
North Carolina	0.98	0.65	4.26	13.42	18.99	1.31	24.23	15.39	39.62	28
South Carolina	1.27	-	6.36	14.63	13.35	3.18	20.99	17.81	38.79	29
Tennessee	1.83	0.46	2.74	19.63	6.39	6.85	10.95	26.93	37.88	30
Arizona	1.66	-	1.10	11.04	11.04	12.15	13.80	23.19	37.00	31
Oklahoma	1.57	0.79	9.43	10.22	12.58	1.57	23.58	12.58	36.16	32
Illinois	1.03	1.03	1.44	18.30	10.08	3.50	12.55	22.83	35.38	33
Connecticut	0.78	0.78	3.88	13.97	9.31	3.88	13.97	18.62	32.59	34
Delaware	3.21	-	3.21	12.83	9.62	3.21	16.04	16.04	32.08	35
Wisconsin	0.97	0.48	5.31	14.96	9.17	0.97	15.44	16.41	31.85	36
Georgia	0.92	0.92	5.20	11.61	11.00	2.14	17.11	14.67	31.78	37
Virginia	2.07	-	3.10	13.78	8.27	4.48	13.44	18.26	31.70	38
Idaho	4.19	-	4.19	10.48	8.28	8.28	14.65	16.74	31.39	39
Alaska	3.92	-	7.84	11.76	3.92	3.92	15.69	15.69	31.37	40
Washington	0.86	-	2.58	11.16	14.16	2.15	17.60	13.31	30.90	41
Rhode Island	2.52	2.52	2.52	20.14	2.52	-	7.55	22.66	30.21	42
California	0.72	0.87	1.59	12.26	7.86	5.26	10.16	18.38	28.55	43
Michigan	1.27	0.51	2.53	14.43	7.34	1.77	11.14	16.71	27.84	44
Maryland	0.93	0.47	5.12	9.77	9.31	1.40	15.35	11.63	26.98	45
Florida	1.10	0.55	0.73	10.63	5.13	7.51	6.96	18.69	25.65	46
Utah	2.32	1.16	3.47	3.47	4.63	9.26	10.42	13.90	24.32	47
Texas	1.24	0.50	3.84	8.44	8.42	3.59	13.50	10.53	24.03	48
Nevada	1.45	-	1.45	4.36	5.81	7.26	8.72	11.62	20.34	49
New Jersey	0.93	0.93	3.42	5.29	5.91	1.87	10.26	8.09	18.35	50
50 States Weighted Average	**1.39**	**0.77**	**4.18**	**14.70**	**10.06**	**6.11**	**15.61**	**21.89**	**37.19**	-

A\ Graduate\Research institutions include those named "Research" or "Doctoral" in NCES data

B\ Other 4-Year institutions include those named "Master's", "Baccalaureate" or "Other specialized 4-year institutions" in NCES data

Sources

National Center for Education Statistics (1999). Table 247.-Degree-granting institutions of higher education and branches, by type, control of institution and state: 1997-98. Digest of Education Statistics 1999 [WWW document] URL http://www.nces.ed.gov/pu

U.S. Census Bureau (2000). Population Estimates for the U.S., Regions, and States by Selected Age Groups and Sex: Annual Time series, July 1, 1990 to July 1, 1999 [WWW Document] URL http://www.census.gov/population/estimates/state/st-99-09.txt

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Major Cost Savings to States

As shown in Exhibit 5-4, those states with large enrollments in independent institutions generally spend significantly fewer state taxpayer dollars per degree granted. For example, Mississippi, with only 9 percent of its enrollments in independent institutions, spent $46,146 per graduate in 1996-97, compared to $17,003 per graduate spent by Missouri, which has 37.1 percent of its enrollments in independent institutions. Kentucky, with 18.2 percent independent (not-for-profit and proprietary institution) enrollments, spent $32,546 per graduate.

To statistically test the relationships between annual state appropriated postsecondary education dollars and the percent of a state's postsecondary education enrollments in independent institutions, we conducted the following linear regression analysis:

$$\mathbf{SHEA} = K + B_1 * \mathbf{PI} + B_2 * \mathbf{NG}$$

Where:

SHEA = State Higher Education Appropriations

K = Constant term

PI = Percent of state's enrollments in Independent Institutions

NG = Number of graduates with Bachelor's or above degrees (added to account for the economies of scale between large and small states)

Using 1997-98 NCES data for each state, except Alaska, we found the following statistical relationships:

SHEA = $366,000,000 - $17,166,723 **PI** + $26,028 **NG**

EXHIBIT 5-4
ANNUAL APPROPRIATIONS PER DEGREE GRANTED AND THE PERCENT OF ENROLLMENTS IN INDEPENDENT INSTITUTIONS
1996-1997

State	Total State Appropriations	Total Degrees Granted	Percent of Enrollments in Independent Institutions	Appropriations Per Degree Granted	State Rank
Alaska	$173,506,000	2,009	4.29 %	$86,364	1
Wyoming	129,401,000	2,192	2.66	59,033	2
Hawaii	358,408,000	6,767	25.96	52,964	3
New Mexico	466,662,000	9,415	7.23	49,566	4
Mississippi	659,293,000	14,287	8.97	46,146	5
Nevada	224,143,000	4,864	4.07	46,082	6
Idaho	232,533,000	5,824	18.51	39,927	7
North Carolina	1,758,713,000	45,241	19.18	38,874	8
Arkansas	462,584,000	12,031	10.23	38,449	9
New Jersey	1,352,316,000	36,073	19.77	37,488	10
Minnesota	1,066,948,000	31,642	24.75	33,719	11
Kentucky	678,395,000	20,844	18.24	32,546	12
South Carolina	679,976,000	20,993	15.65	32,391	13
Alabama	957,288,000	29,810	11.34	32,113	14
Texas	3,252,601,000	101,881	12.75	31,925	15
Washington	998,218,000	31,756	12.87	31,434	16
California	5,137,089,000	163,907	15.00	31,341	17
West Virginia	327,174,000	10,906	13.51	29,999	18
Tennessee	904,280,000	30,165	22.53	29,978	19
Georgia	1,214,767,000	40,657	23.26	29,878	20
Nebraska	385,634,000	13,424	19.84	28,727	21
Iowa	674,039,000	23,602	29.23	28,559	22
North Dakota	153,815,000	5,608	10.02	27,428	23
Wisconsin	971,644,000	35,839	18.24	27,111	24
Florida	1,830,917,000	68,213	18.77	26,841	25
Oklahoma	550,481,000	20,825	12.75	26,434	26
Maine	179,191,000	6,862	32.57	26,114	27
Arizona	697,602,000	26,728	10.90	26,100	28
Kansas	524,398,000	20,151	9.91	26,023	29
Michigan	1,676,647,000	65,124	16.59	25,745	30
Maryland	816,985,000	32,368	18.86	25,241	31
Oregon	471,892,000	18,957	15.02	24,893	32
Indiana	977,191,000	40,633	24.02	24,049	33
Connecticut	528,264,000	22,084	37.93	23,921	34
Illinois	1,990,163,000	84,102	26.11	23,664	35
Louisiana	593,858,000	25,202	13.69	23,564	36
Delaware	143,052,000	6,075	18.70	23,548	37
Ohio	1,666,154,000	71,032	24.66	23,456	38
Virginia	981,031,000	45,057	17.35	21,773	39
South Dakota	117,645,000	5,508	15.83	21,359	40
Montana	122,646,000	5,781	12.32	21,215	41
Utah	418,297,000	19,771	24.87	21,157	42
Colorado	579,879,000	29,224	15.37	19,843	43
New York	2,833,060,000	152,780	44.57	18,543	44
Pennsylvania	1,638,713,000	88,839	43.06	18,446	45
Missouri	722,075,000	42,468	37.07	17,003	46
Rhode Island	127,164,000	10,719	48.32	11,863	47
Massachusetts	769,694,000	70,400	57.66	10,933	48
Vermont	54,911,000	5,817	43.70	9,776	49
New Hampshire	83,185,000	10,346	44.74	8,040	50
50 State Totals	**$44,314,522,000**	**1,694,603**	**22.60 %**	**$26,150**	

Sources

Center for Higher Education & Education Finance, *Appropriations of State Tax Funds for Operating Expenses of Higher Education for Fiscal Years 1994-95 through 1999-00 with Annual Average Five-year Percentage Change*, February 2000

National Center for Education Statistics, *1999 Digest of Education Statistics*

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The regression equation had an R^2 of 0.92 and all coefficients in the equations were statistically significant. The equation indicates that for each one percent increase in the percentage of postsecondary education enrollments in independent institutions, the states, as a whole, have experienced an average annual savings of state tax dollars of almost $17.2 million each (this amounts to almost $900 million in taxpayers savings per year for the nation as a whole). This can be explained by fundamental differences in the way public and independent institutions are funded. For example:

- Independent institutions are, for the most part, very effective in acquiring and partially funding their institutions from private donor funds, while state-owned institutions rely more heavily on state appropriated funds.
- Independent institutions, again for the most part, fund their own capital projects from donor funds at no cost to the state, while the state usually bears a large part of the costs of capital projects for public institutions.
- Independent institutions charge higher tuitions and fees, while state owned institutions charge lower tuitions and fees and use state appropriations to cover the difference in educational expenditures.

Clearly, independent institutions provide a much more cost-effective method for states to meet their postsecondary education goals than trying to accomplish it all through more costly public institutions. States that have a large independent sector save millions of dollars per year on students who would otherwise need to be educated in a state-owned and taxpayer funded institution. The states also save millions of dollars in capital costs by not having to pay for the facilities to house students enrolled in the independent institutions.

5.4 *Independent Institutions Significantly Increase State Postsecondary Education Degree Completions*

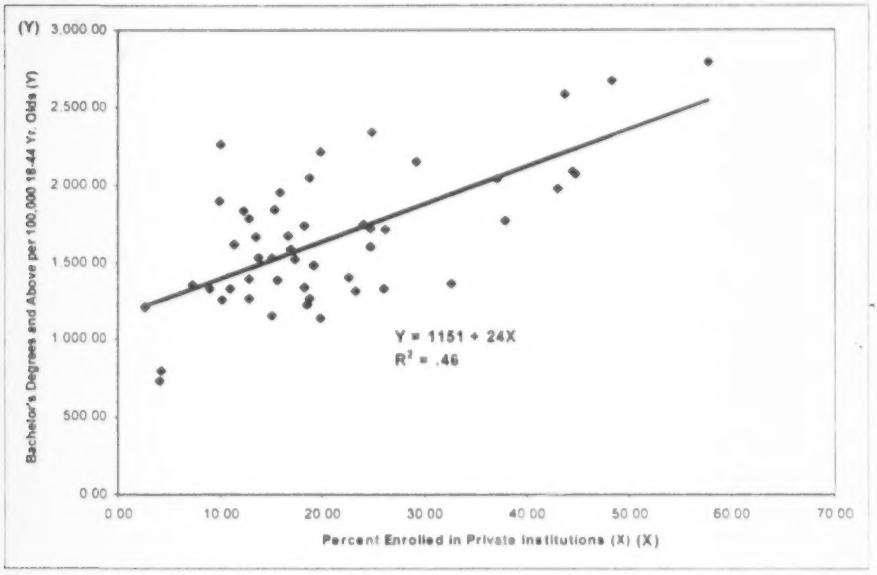
Not only do independent institutions reduce the costs of postsecondary education to the taxpayer, they also increase degree productivity, which is one of the primary goals of Kentucky's postsecondary education reform. As shown in Exhibit 5-5, a very strong statistical correlation also exists between the percentage of a state's total enrollments in independent institutions and the number of baccalaureate degrees granted per 100,000 target age (18-44) population each year. For each one-percent increase in state enrollments in independent institutions, the states, on the average, experience an increase of 24 in the annual number of baccalaureate and above degrees granted per 100,000 target age population. Thus, based on the experience of other states, Kentucky could increase its annual production of 1,339 bachelors and above degrees more than 10 percent by simply increasing the percent of its postsecondary education enrollments in independent institutions by approximately 6 percent.

Independent institutions help bolster the degree production in a state in several ways:

- As indicated earlier, independent institutions significantly increase the geographic accessibility of postsecondary education to the people of the state. This expanded accessibility not only provides opportunities for place-bound students, but also expands the knowledge of local families and students, who might otherwise not enroll in a college, about postsecondary education possibilities.

- Independent institutions have been able to do a better job than most public institutions in ensuring that students graduate on time. For example, in the 1998-1999 academic year, Kentucky's 19 AIKCU independent institutions accounted for 22 percent of the baccalaureate degrees granted while enrolling only 20 percent of the students in four-year degree programs.

EXHIBIT 5-5
STATISTICAL RELATIONSHIP BETWEEN DEGREES GRANTED AT THE BACCALAUREATE LEVEL AND HIGHER PER 100,000 TARGET AGE POPULATION AND THE PERCENT OF STATE ENROLLMENTS IN INDEPENDENT INSTITUTIONS



Notes - Target age population consists of the total number of individuals age 18 to 44 years old

Sources

National Center for Education Statistics (1999). Table 199 -Total fall enrollment in degree-granting institutions, by control, type of institution, and state: 1996 and 1997. The Digest of Education Statistics [WWW document] URL http://www.nces.ed.gov/pubs2000/digest99/d99t199.html

National Center for Education Statistics (2000). Degrees awarded by institutions of higher education, by control, level of degree, and state: 1996-97. Digest of Education Statistics [WWW document] URL http://www.nces.ed.gov/pubs2000/digest99/d99t250.html

U.S. Census Bureau (2000). Population Estimates for the U.S., Regions, and States by Selected Age Groups and Sex: Annual Time series, July 1, 1990 to July 1, 1999 [WWW document] URL http://www.census.gov/population/estimates/state/st-99-09.txt

5.5 *Comparison of Kentucky to States with High Economic Attainment*

Comparisons are often helpful in developing winning strategies. However, to be of the most benefit, comparisons must be made to the best—not the worst or even the average. No major advantage accrues to a football coach from studying the strategies of a 6-6 team. The advantage is in studying the strategies of the 12-0 team, especially if the team has had a prolonged winning record. So, for comparative purposes, we chose a set of states with high economic attainment, i.e., those in which per capita incomes

have been consistently above the national average since 1980. The states that meet this criterion are listed below in Exhibit 5-6.

EXHIBIT 5-6
STATES WITH HIGH ECONOMIC ATTAINMENT

Comparison States
California
Connecticut
Delaware
Illinois
Maryland
Massachusetts
Minnesota
New Jersey
New York

As shown in Exhibit 5-7, the selected comparison states, on the average:

- Have significantly higher per capita incomes than Kentucky;
- Produce more degrees per 100,000 population (ages 18-44) than Kentucky;
- Annually pay significantly fewer taxpayer dollars per degree granted at the bachelor's and above levels;
- Make significantly greater use of their independent institutions in enrolling postsecondary students.

In other words, most of these states have made highly effective use of their independent institutions and, as a result, produce more graduates per 100,000 target age population and pay significantly fewer taxpayer dollars for those graduates.

This leads to an important public policy question: Are those states with high enrollments in independent institutions just historically lucky or have those states actively encouraged and supported their independent institutions? The answer, for the most part, is "both". The selected comparison states are fortunate that a large number of independent institutions were established in their states. However, the institutions thrived, partly because the states have, again for the most part, established policies that

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have enabled the institutions to compete effectively with their highly subsidized public institution counterparts.

EXHIBIT 5-7
COMPARISON OF STATE POSTSECONDARY EDUCATION CHARACTERISTICS OF KENTUCKY AND SELECTED STATES WITH HIGH ECONOMIC ATTAINMENT

Characteristic	Comparison States (Average)[a/]	Kentucky
Per Capita Income (1999)[b/]	$33,265	$23,237
Degrees Granted per 100,000 Target-Aged (18-44) Population (1997-98)[c/]		
Baccalaureate	1,158	909
Master's	507	292
Doctorate	53	25
Professional	88	72
State Appropriations per Degree Granted (1996-97)[d/]	$25,378	$32,546
Percent Enrollments in Independent Institutions (1997)[e/]	29.0 %	18.2 %
Percent of Degrees Awarded by Independent Institutions (1998-99)[f/g/]		
Baccalaureate	39.5 %	21.4 %
Master's	59.9 %	10.1 %
Doctorate	55.3 %	4.6 %
Professional	74.6 %	0.0 %

a/ States with per capita incomes consistently above the national average since 1980. See Exhibit 5-6.
b/ Source: U.S. Department of Commerce, Bureau of Economic Analysis, Personal Income for States, 1958-99.
c/ Derived from Exhibits 2-3 through 2-6.
d/ Derived from Exhibit 5-4.
e/ Derived from Exhibit 5-4.
f/ Source: Derived from *Report on State Assistance Programs Benefiting Independent Colleges and Universities and Their Students*, 1999 Session. National Association of Independent College and University State Executives.
g/ Figure does not include Delaware and Minnesota since data was not available.

5.6 *State Policy Mechanisms for Independent Institutions in Other States*

Clearly, state higher education policy has a direct and significant impact on the independent sector. According to a 1990 report by the Education Commission of the

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States (ECS) Task Force on State Policy and Independent Higher Education[1], states employ five general kinds of policies that affect, intentionally or unintentionally, the capacity of independent colleges and universities to serve public purposes. These five kinds of policy are highlighted in detail below.

1. Recognition in state policy and planning. Some states include independent sector representatives in statewide postsecondary education planning and strive to use both sectors as resources in achieving statewide goals. Additionally, policies are developed with sensitivity to the impact on independent colleges and universities.

2. Student subsidy policies. All states have basic policies to help students and their families pay for postsecondary education. Low public tuition is a common policy mechanism through which the state subsidizes the cost of educating students at public institutions. Many states also have student financial aid programs for which students attending independent institutions are eligible. These programs include:

- criterion-based grants to students (e.g., based on financial need, merit, or workforce demand);
- student loan programs;
- student work-study or community service programs; and
- tuition equalization programs that reduce the difference between the low, state-subsidized tuition rates of public institutions and the tuition of independent institutions.

3. Specific purpose grants or contracts. Many states have programs that take advantage of the resources offered by independent colleges and universities. Through grants and contracts, the state is able to address priorities while avoiding duplication through new programs or facilities at public institutions. These types of programs include:

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[1] Education Commission of the States. (1990). *The preservation of excellence in American higher education: The essential role of private colleges and universities*. Denver: Author.

- support of health science and professional programs (e.g., medicine, dentistry, and nursing);
- support of undergraduate programs in high need areas (e.g., education and engineering);
- support of research and technology transfer related to state economic development (e.g., funding of partnerships between business and university research centers, eligibility of independent institutions for state matching funds for new research initiatives, and capital funding for research facilities and equipment at independent institutions);
- support for endowed chairs at independent colleges and universities;
- eligibility of independent colleges and universities to compete for state grants to improve undergraduate academic programs or to implement innovation and reform efforts in priority or critical need areas (e.g., teacher education); and
- support of independent college initiatives to serve disadvantaged or minority students (e.g., outreach, guidance and counseling, support services).

4. General purpose institutional aid. A few states in the nation provide general purpose direct funding to independent non-profit colleges and universities to reflect the state's recognition that a fiscally and academically strong independent sector is in the best interest of the state.

5. State tax policies. Almost all states provide basic property tax exemptions for both public and independent non-profit institutions. Another commonly used mechanism is the state sales tax exemptions on education-related purchases. In those states with an income tax, donations to colleges and universities are usually tax deductible within certain guidelines. Many states also allow independent non-profit colleges and universities to benefit from the issuance of tax-exempt bonds for construction through state-chartered postsecondary education financing authorities.

Survey of Other Selected States. For the purposes of this report, a survey of the independent college associations in eighteen states was conducted to determine the types of policies that are currently in place to utilize independent colleges and

universities. States were purposefully selected to represent one or more of the following characteristics: (1) contiguous states; (2) SREB states; and (3) reputation as a model state for utilization of the independent sector. As illustrated in Exhibit 5-8, this sample provided a range of policies and initiatives that are currently in place to utilize independent colleges and universities for public purposes.

As might be expected, the most common type of policies among the states related to student financial aid.

- All 18 states had some type of need- or merit-based program benefiting students in both the public and independent sectors.
- Almost two-thirds (11) of the states had both need- and merit-based programs benefiting students in the independent sector.
- One-third (6) of the states had tuition equalization grants for students attending non-profit independent institutions. It is important to note that the tuition equalization programs were in place in conjunction with need- and merit-based aid rather than as an alternative to such programs.
- Nearly one-third (5) of the states utilized specific purpose contracts or grants with independent colleges and universities, including competitive program enhancement grants, academic program contracts for high-need or state priority areas, research or service contracts, and payments for enrollments or graduates of the independent sector.
- One-third (6) of the states provided capital funding or tax exempt bonding to independent institutions.

5.7 *The State Policy Context*

The policy context for independent postsecondary education in each state has developed in a unique fashion, based on variables such as population, economic factors, the historical development of postsecondary education institutions, state constitutions and statutes, and the cumulative impact of policy choices that have been made over

EXHIBIT 5-8
STATE POLICY MECHANISMS FOR INDEPENDENT INSTITUTIONS IN SURVEY STATES

STATE POLICY MECHANISMS	FL	G	IL	IN	MA	MD	MI	MN	MO	NC	NY	OH	PA	SC	TN	VA	WV	WI
Student Subsidy Policies																		
Tuition equalization grants for independent sector students	X	X		X						X		X				X		
Need-based programs for independent sector students	X		X		X		X							X				X
Merit-based programs for independent sector students																		
Need-based programs for public and independent sector students			X	X	X	X	X	X	X	X	X	X	X		X	X	X	X
Merit-based programs for public and independent sector students	X	X	X	X		X	X		X	X	X	X		X	X			X
Other special programs for public & independent sector students	X			X			X				X	X	X				X	X
Specific Purpose Contracts or Grants																		
Program enhancement grants for public & independent sector							X				X							
Academic program contracts	X														X			
Research or service contracts	X										X							
Payments or reimbursements for graduates of independent sector							X				X							
Payments for dual enrollment high school students							X											
Capital financing/tax exempt bonding			X		X	X					X		X			X		
General Purpose Institutional Aid																		
Appropriations for health professions programs	X										X	X						
General appropriations						X							X					
State Tax Policy																		
Tax credits for contributions to public or independent institutions							X											
Recognition in State Planning and Policy																		
Inclusion and/or voice in academic program review	X										X							
Inclusion of independent sector on Education Cabinet										X								

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many decades. The 1990 ECS report provided a typology for analyzing the relationship between state policy and independent postsecondary education. Accordingly, each state was placed in one of four categories representing the continuum from limited to extensive state recognition of the independent sector. These four categories, described in greater detail in Exhibit 5-9, include:

- Minimal state role – Twenty-one states had a tradition of serving public purposes only through public institutions. Generally, these states had about 10 percent of enrollments in the independent sector.

- Limited state role – Eleven states (including Kentucky) demonstrated a limited to moderate use of state policy to improve the competitive position of independent institutions. Generally, these states had about 17 percent of enrollments in the independent sector.

- Moderate state role – Eleven states deliberately used state policy to improve the competitive position of independent institutions while employing limited regulatory strategies. Generally, these states had about 34 percent of enrollments in the independent sector.

- Major state role – Seven states provided extensive recognition of independent institutions in state planning and policy. Generally, these states had about 39 percent of enrollments in the independent sector.

More than one-third (18) of the states in this 1990 ECS study had a moderate to major state role for the independent sector. Among those states with a moderate state role, the following practices were characteristic: strong recognition of the independent sector in statewide postsecondary education planning, deliberate design of student financial aid programs to provide reasonable choice, some tuition equalization programs, some attention to tuition policy, some grants or contracts for specific state purposes, and limited general purpose direct grants. Among those states with a major state role, the following practices were characteristic: extensive recognition of independent institutions in state planning and policy, consideration of the impact on independent institutions

EXHIBIT 5-9
CATEGORIES OF STATE POLICIES
1990 EDUCATION COMMISSION OF THE STATES REPORT

Category & Percent of Independent Enrollments	Characteristics	States
Minimal State Role: Tradition of serving public purposes only through public institutions. **10% in the Independent Sector**	■ Limited or no recognition of independent institutions in state planning and policy. ■ Relatively low public tuition. ■ Limited student aid. ■ No specific purpose grants or contracts with independent institutions. ■ No general purpose direct grants to independent institutions.	Alaska Arizona Arkansas Colorado D.C. Delaware Hawaii Idaho Louisiana Maine Mississippi Montana Nebraska Nevada New Hampshire New Mexico North Dakota Oklahoma Oregon South Dakota West Virginia Wyoming
Limited State Role: Limited to moderate use of state policy to improve competitive position of independent institutions. Limited state regulatory involvement. **17% in the Independent Sector**	■ Moderate recognition of independent institutions in state planning, but not in setting public missions and program review/approval. ■ Student aid programs designed to provide reasonable choice. ■ Some tuition equalization programs. ■ Limited use of specific purpose grants or contacts with independent institutions. ■ No general purpose direct grants.	Alabama Georgia Kansas **Kentucky** Missouri North Carolina Texas Utah Vermont Virginia Washington

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EXHIBIT 5-9 (Continued)
CATEGORIES OF STATE POLICIES
1990 EDUCATION COMMISSION OF THE STATES REPORT

Category & Percent of Independent Enrollments	Characteristics	States
Moderate State Role: Deliberate use of state policy to improve competitive position of independent institutions. Limited state regulatory involvement. **34% in the Independent Sector**	■ Strong recognition in planning, but generally not in setting public missions and program review and approval. ■ Deliberate design of student aid programs to provide reasonable choice. ■ Some tuition equalization programs. ■ Some attention to tuition policy. ■ Some grants or contracts for specific state purposes. ■ Limited general purpose direct grants.	Connecticut California Indiana Iowa Massachusetts Minnesota Ohio Rhode Island South Carolina Tennessee Wisconsin
Major State Role: Independent institutions considered as integral to the state higher education system. Some state-related independent institutions. Comprehensive student and institutional aid. **39% in the Independent Sector**	■ Extensive recognition of independent institutions in state planning and policy. ■ Impact on independent institutions considered when setting public missions and program review and approval. ■ Extensive student aid programs designed to promote reasonable choice. ■ Tuition policy related to student aid policy. ■ Extensive use of special purpose grants and contracts to use independent institutions' capacity to serve public purposes. ■ General purpose direct grants per degree granted, capitation, and other bases.	Florida Illinois Maryland Michigan New Jersey New York Pennsylvania

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while setting public missions and program review and approval, extensive student aid programs designed to promote reasonable choice, tuition policy related to student aid policy, extensive use of special purpose grants and contracts, and general purpose direct grants.

Thus, it is generally a common practice for states to utilize the independent sector for the achievement of public purposes and statewide goals. Indeed, many of the states with strong and innovative postsecondary systems have a moderate to major state role for utilizing the independent sector.

As shown in exhibit 5-9, ECS, in its 1990 report, classified Kentucky as having a "Limited State Role" in supporting its independent institutions of higher education.

5.8 Polices in Other States Which Help Independent Institutions Thrive

Independent institutions need at least three conditions to thrive in a market where major competitors are highly subsidized by the state taxpayers:

1. A stable and predictable operating environment;
2. A level playing field in terms of costs; and
3. Opportunities to equally compete for market share and state partnerships.

5.8.1 A Stable and Predictable Operating Environment.

Independent institutions, like all businesses, must constantly plan for and invest in the future. Such plans and investments almost always involve the upfront investment of time and dollars in activities such as establishing new programs, building new facilities or refurbishing older facilities, hiring more staff, and buying more equipment. Institutional officials are rightfully reluctant to make such upfront investments when the risk exists that a highly subsidized state program will be established in the same market as soon as the independent institution program proves successful. If states want their independent institutions to thrive and help meet the postsecondary education goals, they must

establish a stable environment that rewards rather than punishes such initiatives. Some examples of actions taken by other states to create a stable environment are as follows:

- Florida: The Postsecondary Education Planning Commission (PEPC) is a citizen board that coordinates the efforts of postsecondary institutions in the state and provides independent policy analyses and recommendations to the State Board of Education and the Florida Legislature. Every five years, PEPC prepares a master plan for postsecondary education in Florida. In the most recent plan, PEPC indicated that Florida is facing a shortage of space for college students at its public colleges and universities. Although the independent institutions in Florida have historically had a major role in postsecondary education, PEPC recommended exploration of further partnerships to meet the demand for access at a reasonable cost to the state.

- North Carolina: Public, independent, and community college leaders are represented on the state's Education Cabinet which meets twice a year. All voices and concerns are heard, thus promoting good working relationships and an effective system.

5.8.2 Level Playing Field in Terms of Costs.

In our interviews, some public policy makers in Kentucky stated that, in their opinion, the use of more public funds to purchase services from Kentucky's independent colleges and universities is politically unacceptable. However, Kentucky's public officials must recognize that the postsecondary education programs in many other states include the use of state funds to acquire the educational services of their independent institutions and that the state's reluctance to provide funds to purchase services from independent institutions is costing the state millions more dollars than necessary to educate the state's students.

As shown in Exhibit 5-8, all of the comparison states except Connecticut and Massachusetts spent significantly more state funds per independent institution FTE student in 1997-98 than Kentucky. These additional funds enable the independent institutions to thrive by effectively coexisting with their highly subsidized public institution counterparts. While the public funds for the independent institutions do not erase the

differences in tuition and fee costs between the two sectors, they do apparently level the differences enough to enable the independent institutions to effectively compete in the marketplace.

Even though most of the comparison states invest more in independent institutions than do other states, they, nonetheless, spend only a small proportion of their total public postsecondary education funds in the independent sector. As shown in Exhibit 5-10, the comparison states spend an average of 5 percent of their public funds in the independent sector.

EXHIBIT 5-10
COMPARISON OF STATE APPROPRIATION DOLLARS FOR INDEPENDENT INSTITUTIONS PER FTE STUDENT IN KENTUCKY AND IN STATES WITH HIGH ECONOMIC ATTAINMENT
1997-98

States	FTE Enrollments Independent Institutions	State Appropriations Dollars For Independent Postsecondary Education b/	State Appropriation Dollars Per FTE Student
Comparison States a/			
Connecticut	34,724	$16,128,795	$464
New Jersey	39,055	83,171,570	2,130
Massachusetts	148,668	46,847,494	315
New York	243,330	305,579,000	1,256
Minnesota	42,654	56,435,000	1,323
California	101,101	154,066,344	1,524
Delaware		NA	
Illinois	130,934	169,758,146	1,297
Maryland	21,524	47,961,550	2,228
Average	**761,990**	**$879,947,899**	**$1,317**
Kentucky	**19,550**	**$15,631,796**	**$800**

a/ States whose per capita incomes have been consistently above the national average since 1980.

b/ Sources: Derived from *Report on State Assistance Programs Benefiting Independent Colleges and Universities and Their Students*, 1999 Session, National Association of Independent College and University State Executives. Also derived from telephone interviews with officials in state associations of independent colleges and universities.

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EXHIBIT 5-10 (Continued)
COMPARISON OF THE PERCENT OF TOTAL STATE POSTSECONDARY EDUCATION APPROPRIATION DOLLARS SPENT WITH INDEPENDENT INSTITUTIONS IN KENTUCKY AND IN STATES WITH HIGH ECONOMIC ATTAINMENT

State	Percent of State Postsecondary Education Funds Spent With Independent Institutions
Comparison States a/	
Connecticut	2.4
New Jersey	6.2
Massachusetts	4.7
New York	7.9
Minnesota	4.8
California	2.2
Delaware	NA
Illinois	7.0
Maryland	4.9
Average	**5.0**
Kentucky	**1.8**

a/ States whose per capita incomes have been consistently above the national average since 1980.

Source: Derived from Report on *State Assistance Programs Benefiting Independent Colleges and Universities and Their Students*, 1999 Session, National Association of Independent College and University State Executives.

The states use many different methods of contracting with independent institutions to provide postsecondary education programs for their students, including:

- providing need-based and/or merit-based, student financial aid;
- providing tuition equalization grants;
- contracting with the institutions to provide specific programs;
- providing institutional grants for special initiatives;
- including independent institutions in special initiatives;
- providing matching funds for state priorities; or
- providing direct subsidies.

The following are specific examples of the full range or complement of state financial aid programs for independent college and university students in other states:

- Virginia: The Tuition Assistance Grant (TAG) is a non need-based tuition equalization program for residents of Virginia who attend approved independent colleges and universities in the state. The

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award for the 2000 – 2001 academic year was $2,850. In the 1999-2000 academic year, approximately 15,000 Virginia residents received student aid from this program. Virginia also has a need-based undergraduate grant program, the College Scholarship Assistance Program, with awards ranging from $400 to $5,000.

- Florida: Resident Access Grant (FRAG) – FRAG is available to Florida residents who attend one of the 27 qualified independent colleges and universities in the state on a full-time basis. Last year the award per student was $2,813 and 25,850 students received this assistance. Florida also has both need based (maximum award $1,300) and merit based (maximum award, 100% tuition and fees plus $600) financial assistance programs that are available to students in the independent sector. Additionally, Florida has established contracts with independent institutions in areas such as nursing, engineering, and math and science education.

- Georgia: The Tuition Equalization Grant provides Georgia residents attending independent colleges and universities in the state with up to $1,000 per year. In the 1998-1999 fiscal year, the Legislature appropriated $25,749,003 for this grant. Additionally, the HOPE Scholarship is a merit-based program awarding a maximum of $3,000 to Georgia high school students who maintained a "B" average for grades 9 through 12.

- Ohio: The Student Choice Grant is a tuition equalization grant that provides financial assistance to full-time students who are enrolled in a baccalaureate program at one of Ohio's independent, not-for-profit colleges. In the 2000 – 20001 academic year, the financial award was $1,062 per student. Additionally, the Ohio Instructional Grant program gives a maximum annual award of $4,872 to students who are in financial need. Ohio also has a merit-based program and several other specialized scholarships with awards that range from $200 to $2000 per academic year.

- Indiana – The Freedom of Choice program is a tuition equalization grant for residents attending independent colleges and universities in the state. Additionally, independent sector students are eligible for the Indiana Higher Education Grant based on need and the Hoosier Scholar Award based on academic.

- North Carolina: The North Carolina Legislature has developed a tuition equalization grant and a merit-based program. The Legislative Tuition Grant provides $1,800 to state residents in North Carolina's independent colleges. The State Contractual Scholarship Fund is a merit-based program through which qualified full-time students receive $1,100 per academic year.

5.8.3 ***Opportunities to Equally Compete for Market Share.***

Often independent institutions are not given an opportunity by state officials to compete at all, much less equally, for postsecondary education markets. The postsecondary education decision-making structure in some states is almost entirely controlled by the state owned institutions, with little to no input from, or consideration of, the independent institutions. Further, the public institutions view the independent institutions as both easy sources of increased enrollments and major potential competitors for state funds. Thus, public institutions in some states have used their political control over the state decision-making structure to prevent independent institutions from either becoming significant competitors for state dollars or being considered as viable alternatives for expanded postsecondary education services. As a result, in these environments, decisions are frequently made to locate new public branch campuses, new degree programs and even new institutions in the "backyard" of independent institutions without considering the possibility of partnering with the independent institution to provide the expanded services. Driving an independent institution out of business is, unfortunately, often considered an acceptable consequence of doing business by the competing public institution, especially when the state offers financial incentives to the public institution to increase enrollments. Even though the public institution is the winner when this happens, the state is the loser because taxpayers have to pay more tax dollars to educate the same students.

When public institutions dominate the postsecondary education decision making process at the state level, the results are almost always the same:

- The costs per degree granted to the state are higher;
- The degrees granted per 100,000 population are lower;
- Consumer options are limited; and

- Independent institutions are either driven out of business or are severely restricted in their growth.

Most independent institutions, with the exception of a small percentage that are well endowed, simply cannot thrive in an environment where they are limited by state policies and subsidies from having an equal opportunity to compete for market share. Some states which value the contributions made by their independent institutions have recognized this problem and have taken steps to create a more equal set of opportunities for those institutions. Examples of actions taken by other states include:

- Michigan: The state has created a series of degree reimbursement programs to reward independent institutions for the number of degrees granted to residents at their respective institutions during the previous year. This includes all academic program areas except theology. The program is funded at $6.2 million and awards are approximately $530 for bachelor's and master's degrees and $265 for associate degrees. Independent institutions are rewarded at a higher rate ($2,000) for allied health programs with a clinical component (e.g., nursing) since they are more costly to produce. Eligible high school seniors who are dually enrolled in a public or independent postsecondary program can apply to have a percentage of the Foundation Grant (state per capita funding for students in public high schools, i.e., $6,200) to be paid as tuition to the institution in which they are enrolled. The King-Chavez-Parks Select Student Support Services Program is a competitive grant program for institutional initiatives to enroll underrepresented students. This program, available to public and independent sector, is funded at $2 million and the grants are $750,000 on average. The state has also established tax credit incentives for contributions to public and independent colleges and universities.

- New York: Direct Institutional "Bundy" Aid provides state assistance to independent colleges and universities. The current allocation to eligible institutions is $218 for each associate's degree, $546 for each bachelor's degree, $342 for each master's degree, and $1,656 for each doctoral degree awarded. The Teacher Opportunity Corps program provides grants to public and independent colleges and universities for increased enrollment of underrepresented minority students in teacher certification programs. The Center for Advanced Technology (CAT) Program promotes collaborative research in technologies consistent with New York's research and industrial strengths. Each center receives state funding, with matching funds provided by the center's industrial sponsors. Additionally, each center is eligible for a number of other supporting state grants or

funding sources. Nine of the 14 centers are on independent sector campuses.

- Florida: All new baccalaureate and graduate degree programs proposed by state universities are reviewed by the Postsecondary Education Planning Commission (PEPC) as well as the Board of Regents (BOR). PEPC and the BOR consider proposed programs based on established criteria, including existing programs offered by all sectors of higher education within the state, including independent colleges and universities. Independent college and university leaders are given the opportunity to voice their support or concerns regarding proposed programs during formal discussion at related meetings. Florida also contracts with independent institutions for a number of undergraduate programs, including engineering (4), nursing (2), science and math education, specific learning disabilities, and motion pictures. Additionally, the University of Miami receives an annual appropriation for provision of medical education to residents.

- Tennessee – The state contracts for the provision of undergraduate programs in sign language and mortuary science.

- Virginia – George Mason University has contracted with Hanover College for a fine arts curriculum until one could be put in place at that institution. Additionally, the Virginia College Building Authority issues tax-exempt bonds for financing independent higher education facilities. This program, which has been in place for several decades, is staffed by the State Treasurer's Office. The stringent credit requirements of this program limit the usefulness of this program to some institutions. However, local Industrial Development Authorities also issue tax-exempt bonds to independent colleges and universities. Some institutions have preferred this option, describing it as less bureaucratic and lower cost.

- Illinois: Independent institutions can borrow capital from the Illinois Educational Facilities Authority (IEFA). The IEFA lends money to educational institutions at lower rates than other financial groups. The loans are short term and are paid back within 12 months.

- Pennsylvania: The Pennsylvania Higher Education Facilities Authority offers tax exempt bonds that are available to independent colleges and universities.

- Massachusetts: The Massachusetts Health and Education Facilities Authority serves as a conduit for tax exempt bond issues. Since the Massachusetts Development Finance Agency agency offers the same service, independent institutions are in a position to choose between competing offerings.

- Maryland: The Maryland Legislature appropriates funds for capital projects (academic buildings only) at independent colleges and universities in the state through two different programs. First, qualifying institutions can receive Pay As You Go (PAYGO) funding through the state operating budget. This program has a matching funds requirement. State funds are disbursed upon submission of receipts for approved construction and renovation projects. Second, qualifying institutions can obtain sponsorship for general obligation bond bills through the state capital budget. The bond bills also have a matching funds component, and state funding cannot exceed 49 percent of the total project funding. For FY 2002, $8 million was allocated to capital projects at independent colleges and universities in Maryland. This is approximately 2.1 percent of capital funding for all four-year colleges and universities in Maryland. Independent college or university qualification for funding involves an application process, including a letter of intent to the Maryland Independent College and University Association (MICUA). MICUA evaluates each submission and decides whether or not to endorse it. Since this is a rigorous process, the MICUA endorsement carries significant weight with state legislators.

As these examples illustrate, there are many types of creative partnerships and programs that can be designed by the state to take advantage of resources in the independent sector. **Those states that develop a well-defined plan for using both the independent sector and the public sector are most likely to achieve statewide postsecondary goals in the most effective and most efficient manner.**

6.0 THE CHANGING ENVIRONMENT FOR INDEPENDENT HIGHER EDUCATION IN THE NATION AND IN KENTUCKY

6.0 THE CHANGING ENVIRONMENT FOR INDEPENDENT HIGHER EDUCATION IN THE NATION AND IN KENTUCKY

The last quarter of a century has been marked by tremendous change in the landscape of higher education in the nation. The technology age has spawned new demands from students, including high expectations for customer service, access to computers and other costly high-tech equipment, use of electronic resources through "virtual" libraries, and learning that occurs beyond the constraints of time and place. The competition for students has intensified as branch campuses and centers have proliferated. Additionally, for-profit or "proprietary" institutions such as the University of Phoenix have become commonplace in local communities while nationally offering an expansive list of degree programs via the Internet. In order to remain viable, public and independent colleges and universities have established innovative programs and partnerships that meet the educational needs of non-traditional students as well as the training needs of business and industry.

While institutions are pressed to invest heavily in technology and aggressive student marketing strategies, there also has been an increase in competition for funding. Public institutions have faced stagnant or declining state appropriations in light of other public needs such as K-12 education, health care, and criminal justice. Private funding, once the purview of non-profit independent colleges and universities, is being sought increasingly by public sector fundraisers who have developed layers of staffing as well as sophisticated donor research and relations efforts.

In order to meet the obligation of providing educational opportunities to citizens while maintaining reasonable costs to taxpayers, many states have implemented extensive postsecondary education reorganization and funding reforms. The link between education and the economy has become explicit; thus, state and local

governments routinely partner with colleges and universities to advance initiatives related to research and workforce development.

The national trend has been toward the privatization of services in business, education, and government. Many states have used outsourcing as a cost-effective means of meeting state priorities at reduced costs. As states have developed such partnerships with the independent colleges and universities, these institutions have organized to communicate more effectively and to become more responsive to the needs and interests of the state. The state associations for independent colleges and universities have played a key role in facilitating this relationship between state leaders and their member institutions.

This is a period of tremendous change for colleges and universities and fundamental transformation for postsecondary education across the nation. Additionally, each state is characterized by an environment that poses unique opportunities and challenges. The purpose of this chapter is to assess the postsecondary environment in Kentucky and its impact on the AIKCU colleges and universities.

6.1 *The Environment for Independent Postsecondary Education in Kentucky*

In order to assess the environment for independent postsecondary education in Kentucky, interviews were conducted with the Presidents of the AIKCU colleges and universities, state policy makers, and AIKCU business trustees. The methodology for these interviews was outlined previously in Chapter 1.

In describing the current environment for independent institutions in Kentucky, little consensus existed among the presidents. Their impressions ranged from "more favorable than five years ago" to "less favorable than five years ago." Those in the middle were still trying to discern the impact of recent postsecondary education reforms,

which have heavily influenced the environment for colleges and universities in the Commonwealth. Clearly, each campus experiences the environment based on the characteristics, conditions, and circumstances that distinguish it from other higher education providers. However, the interviewees generally identified the following environmental factors as pivotal in Kentucky:

- recent postsecondary education reform initiatives;
- the state primarily purchases services from public institutions;
- low tuition and fees at public institutions;
- competition for students;
- expansion of public branch campuses and off campus centers;
- misinformed public perceptions of independent institutions;
- competition for private funding;
- student financial aid;
- the need for cost containment; and
- the public policy process.

6.1.1 The Environment: Postsecondary Education Reform

The last five years in Kentucky's postsecondary education system have been marked by tremendous change. Governor Patton and the General Assembly have provided vigorous leadership in promoting higher education reform by careful research and analysis of the issues, bold redesign of the higher education structure, an overhaul of the funding system, and aggressive infusion of new funds. Since the reform legislation was passed in 1997, total general fund support to postsecondary education has increased 45.4 percent to $1.1 billion in fiscal year 2002. This increase does not reflect $230 million appropriated to public institutions over the past two biennia in support of "bucks for brains" and other programs that require a private funding match. Public postsecondary general fund operating appropriations have increased 45.4 percent since the passage of the Reform Act. In the last biennium alone, general fund support to public postsecondary education grew by 19.1 percent while General Fund revenue grew by only 11.6 percent. Clearly, Kentucky has made a significant

commitment to improving the quality, breadth, and efficiency of public postsecondary education in the Commonwealth. Highlighting the connection between postsecondary education and the economy, the postsecondary education reforms were initiated to improve the standard of living in Kentucky and the quality of life for its citizens. The Postsecondary Improvement Act of 1997 (HB 1) embraced the following goals for achievement by 2020:

- a seamless, integrated system of postsecondary education strategically planned and adequately funded to enhance economic development and quality of life;
- a major comprehensive research institution ranked nationally in the top twenty (20) public universities at the University of Kentucky;
- a premier, nationally-recognized metropolitan research university at the University of Louisville;
- regional universities, with at least one (1) nationally-recognized program of distinction or one (1) nationally-recognized applied research program, working cooperatively with other postsecondary institutions to assure statewide access to baccalaureate and master's degrees of a quality at or above the national average;
- a comprehensive community and technical college system with a mission that assures, in conjunction with other postsecondary institutions, access throughout the Commonwealth to a two-year course of general studies designed for transfer to a baccalaureate program, the training necessary to develop a workforce with the skills to meet the needs of new and existing industries, and remedial and continuing education to improve the employability of citizens; and
- an efficient, responsive, and coordinated system of autonomous institutions that delivers educational services to citizens in quantities and of a quality that is comparable to the national average.

The implementation of these improvements involved large-scale restructuring of the existing postsecondary education system to improve coordination of all institutions and to reduce the impact of regional politics on the policy process. This new coordinating structure included:

- establishment of the Strategic Committee on Postsecondary Education to promote communication between elected leaders and

postsecondary officials as related to the Strategic Agenda for postsecondary education;

- elimination of the former Council on Higher Education and establishment of the Council on Postsecondary Education as an enhanced coordinating body for all postsecondary institutions in the Commonwealth;

- removal of the community colleges from University of Kentucky control and establishment of the Kentucky Community and Technical College System with a governing Board of Regents and a President; and

- the establishment of the Kentucky Virtual University (KYVU) as a student-centered, technology-based mechanism for delivering courses, programs, and academic support services provided by existing institutions, both within and outside of the Commonwealth.

These sweeping changes laid the groundwork for development of the Strategic Agenda for postsecondary education in the Commonwealth which specified how the resources and talents of all public and independent institutions would be utilized for achievement of statewide goals. The Strategic Agenda, incorporating advice from SCOPE, outlined the sector and institutional actions required to achieve the broad statewide goals for postsecondary education. The document assigned responsibilities to the overall system of postsecondary education, the individual public and postsecondary institutions, and the CPE. These responsibilities are outlined in the chronology of the postsecondary reforms included in Appendix C.

Responsibilities Assigned by the Strategic Agenda. An examination of the Strategic Agenda shows that the implementation of Kentucky's postsecondary education reforms place the primary responsibility for achieving the state's higher education goals on the state's public institutions. Very little responsibility is assigned to the state's 19 independent institutions.

- Enrollments - The Strategic Agenda established a goal of increasing undergraduate enrollments from 160,600 in 1998 to 240,600 by 2020, a 50 percent increase over the 22-year period. Over the first six years of the growth period, the public institutions are expected to

enroll an additional 11,000 students and the independent institutions are expected to enroll an additional 2,000 students. In terms of percentages, the public institutions are expected to increase undergraduate enrollments by 8.1 percent and the independent institutions by 8.3 percent. Additionally, the University of Kentucky and the University of Louisville are expected to increase graduate enrollments by 500 students. The 2000-02 budget included $16 million to support public institution efforts to enhance enrollment and retention. No targets were set for increases in graduate enrollments at the independent institutions, nor are state incentive funds available to independent institutions to increase enrollment.

- Graduates - The Strategic Agenda established targeted improvements in retention and graduation rates for each public university and the Kentucky Community and Technical College System. No retention and graduation rate goals (or state funds) were established for the independent institutions.

- Research - The Strategic Agenda established research goals for the University of Kentucky to become one of the top 20 research institutions in the nation by 2020 and for the University of Louisville to become a premier nationally recognized metropolitan research university. A biannual matching Research Challenge Trust Fund of over $100 million in state funds was established to assist the two institutions in achieving their assigned research goals.

- Science and Technology - The Strategic Agenda established a program and funding (on a matching basis) to improve the level and use of technology in providing higher education services to students. The program includes development of the Kentucky Virtual University, which serves as the communication system for universities to offer Internet courses and degree programs. None of the $5.2 million appropriated for achieving the state's science and technology goals are available to independent institutions.

- Quality Academic Programs - The regional universities were each charged with creating at least one nationally recognized program of distinction. A Regional University Trust fund with a biennial appropriation of $35.7 million in state funds, was established to encourage these programs of distinction as well other objectives outlined in the Strategic Agenda, including developing innovative solutions to community and regional problems, increasing the educational levels in Kentucky, working with local schools, etc. Additionally, trust fund monies were established to create model schools of education for a select number of public universities. No quality improvement goals (or state funds) were established for the state's independent colleges and universities.

- Workforce Development and Adult Education - KCTCS was created to serve as the primary provider of two-year transfer and technical

programs, workforce training, remedial programs, and continuing education. Incentive funding, consisting of $25 million of state funds, was appropriated to support the development of this new comprehensive system, to increase access, and to promote economic development. The $25 million included incentive funding for the public community and technical colleges to develop a long-term strategy for adult education and literacy. No workforce development and adult education goals (or state funds) were established for the state's independent colleges and universities.

Responsibilities Assigned to the Independent Sector. The responsibilities assigned to the independent sector primarily involved a pledge of cooperation and collaboration. The plan stated: "This vital component of our system will be embraced as a full partner in the greater system of postsecondary education of which the state-supported system is a part (p. 7)." Despite this convincing statement, the expectations assigned to the independent sector by the Strategic Agenda were marginal at best.

The only specific goal assigned to the state's independent institutions was to increase the sector's total enrollments by 2000 students by 2004. To assist in accomplishing this goal, the state made important contributions to students, but none to independent institutions. The state:

- Committed to increasing support for Kentucky's need-based financial aid programs. SB21, passed in 1998, directs a significant portion of lottery revenue to financial aid programs supporting low income students attending both public and independent sector colleges and universities; and
- Authorized students in the state's independent institutions (along with students at public institutions) to receive scholarships from the Kentucky Educational Excellence Scholarships (KEES) Trust Fund. The trust fund received $52,850,000 from the state for the FY 2001 and FY 2002 biennium.

Other Strategic Agenda goals, such as improving retention and graduation rates or improving program quality, might be inferred to be goals assigned to the state's independent institutions. However, no funds were provided by the state to the independent institutions to accomplish such goals.

Funding Mechanisms. The state leadership pledged incentive funding to drive the Strategic Agenda. The funding mechanisms that were developed for postsecondary education, in essence, dictate how each sector is utilized in the reform effort and the relationships between the sectors. Appendix D outlines the Commonwealth funding policies for postsecondary education and shows the estimated amounts appropriated for the public and independent institutions in FY 2001 and 2002. This funding program creates a significant set of incentives for the state's public institutions as follows:

- The Annual Operating Budget process for determining the annual state funds for operating the public institutions are partially related to the number of students enrolled, creating an incentive for the institutions to aggressively recruit and enroll more students.

- The Research Challenge Trust Fund provides matching state dollars for private donations secured by the University of Kentucky and University of Louisville, creating a major incentive for these two universities to acquire private funds.

- The Regional University Excellence Trust Fund provides matching state dollars for private donations acquired by the state's five regional universities, creating a major incentive for the universities to secure private donations.

- The Workforce Development Trust Fund provides funds for the state's community and technical colleges to train workers in support of the state's businesses, creating incentives for the two-year colleges to create workforce training programs.

- The Facilities Capital Renewal Trust Fund provides matching state dollars for private donations acquired by the public institutions, creating another incentive for the institutions to aggressively seek private donations.

- The Technology Trust Fund provides matching state dollars for private donations acquired by public institutions creating still another incentive for the institutions to seek private donations.

- The Student Financial Aid Trust Fund provides merit based financial assistance to students enrolled in both public and independent institutions, creating an incentive for institutions in both sectors to aggressively recruit and enroll highly qualified students.

- The Adult Education and Literacy Trust Fund provides funds to those institutions that provide adult education programs, creating an

incentive for institutions to participate in a statewide adult education network.

- The Science and Technology Trust Fund provides funds to public institutions to conduct technology research, assist in transferring technology to the market place, and assist in the building of Kentucky's high technology economic sector, creating an incentive for institutions to design and seek funding for innovative programs.

- The Capital Funds program provides funding to the state's public institutions for capital projects, creating both the means and the incentives for the public institutions to continue to expand their facilities to support their programs.

- The Recruitment and Retention Program, funded through the Regional University Trust Fund, the Workforce Development Fund and the Research Challenge Trust Fund, provides incentive dollars to the state's public institutions to enhance enrollment and improve retention, particularly in underserved counties.

As shown previously, virtually all of the state funding programs and state funds are reserved to purchase services from the public institutions. Only the Student Financial Aid Trust Fund is available to purchase services from the state's independent institutions.

In summary, the reforms have made substantive changes to the postsecondary education environment in Kentucky, including:

- Establishing a new structure for postsecondary education to improve coordination among all colleges and universities while reducing the impact of regional politics in the policy process;

- Establishing postsecondary education as the state's highest budgetary priority for two consecutive biennia;

- Increasing funding for students by dedicating state lottery income to student financial aid programs and to a merit scholarship program;

- Altering the public postsecondary funding system to maximize the impact of state resources on achievement of statewide goals;

- Paying the public institutions to raise private funds by matching each private donor dollar that the public institutions raise;

- Deregulating the public postsecondary education system to give public institutions more policy making flexibility in areas such as tuition rates and new academic programs; and

- Establishing the Kentucky Commonwealth Virtual University to organize and promote the delivery of postsecondary education via technology.

The AIKCU presidents indicated that this period of state priority and focus on postsecondary education in unequivocally positive for students and citizens of Kentucky. As the reform movement was gaining momentum in 1997, all 19 of the member presidents fully endorsed the agenda of the Governor. Today, they remain committed to the ideals of the reform movement, and they feel a sense of responsibility in serving the needs and interests of the Commonwealth. However, there is a feeling among AIKCU presidents that the reforms do not provide a meaningful role for the independent institutions through which they can make their full range of potential contributions to the state.

6.1.2 The Environment: The State Primarily Purchases Services from Public Institutions

Kentucky state government purchases its higher education services primarily from its public colleges and universities. As shown in Exhibit 6-1, 98 percent of the funds expended by the state on postsecondary education is used to acquire services from public sector institutions, with only 2 percent used to buy services from the independent institutions. In total, the state spends approximately $1.1 billion per year in acquiring postsecondary education services from public institutions and only about $25 million in buying services from the independent institutions.

Further, the annual commitment of the state to purchase most of its postsecondary education services from the public institutions provides a stable and reliable source of annual revenues that enables the institutions to take risks and plan for the future with confidence. At the same time, the lack of state acquisition of postsecondary education services from the independent institutions deprives them of the same source of stable revenue and significantly reduces their ability to take risks and plan for the future.

EXHIBIT 6-1
STATE FUNDING FOR POSTSECONDARY EDUCATION IN KENTUCKY, FY 2001 AND FY 2002 BIENNIUM

Funding Mechanism	Public Sector Funds ($ million)		Independent Sector Funds ($ million)	
	FY 01	FY02	FY 01	FY 02
Operating Appropriations a/	$880.3	$935.4	$0	$0
Research Challenge Trust Fund b/	$101.9	$1.9	$0	$0
Regional University Excellence Trust Fund c/	$22.9	$12.9	$0	$0
Workforce Development Trust Fund	$13.5	$9.5	$0	$0
Physical Facilities Trust Fund	$0	$3.0	$0	$0
Technology Initiative Trust Fund	$0	$6.0	$0	$0
Science and Technology Trust Fund	$1.0	$4.3	Undetermined	Undetermined
Student Financial Aid Trust Fund d/	$52.3	$65.6	$23.9	$26.6
Adult Education and Literacy Trust Fund	$7.0	$12.0	$0	$0
Capital Funds e/	$51.2	$50.3	$0	$0
TOTAL	**$1,130.1**	**$1,100.9**	**$23.9**	**$26.6**

a/ Operating Appropriations equal general fund minus debt service. This figure does not include tuition revenues.
b/ If the $100,000,000 for endow ment match is not spent in FY 01, the remaining amount is available in FY 02.
c/ If the $20,000,000 for endow ment match is not spent in FY 01, the remaining amount is available in FY 02.
d/ The KEES, CAP, Work Study, Teacher Scholarships, and National Guard Scholarship funds are projections based on FY 2000 data.
e/ Capital Funds equal the amount of debt service for previously issued bonds for all institutions.
Source: Kentucky State Budget

6.1.3 The Environment: Low Tuition and Fees at Public Institutions

As a part of its state postsecondary education policy and a result of directing most of its higher education dollars, the state of Kentucky maintains significantly lower tuition and fee levels at its public institutions than many other states. As shown in Exhibit 6-2, all of the comparison states charge higher tuition and fees levels for their public comprehensive institutions than does Kentucky. The state average for annual public tuition and fees in comparison states (1996-1997 academic year) was $3,986 and the national average was $2,948. In contrast, the state average for public tuition in Kentucky was $2,107 (i.e., 47 percent below the comparison state average and 29 percent below the national average).

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EXHIBIT 6-2
UNDERGRADUATE TUITION AND REQUIRED FEES FOR COMPREHENSIVE INSTITUTIONS IN KENTUCKY AND THE U.S. 1997–1998

INSTITUTION	UNDERGRADUATE TUITION & FEES					
	IN-DISTRICT		IN-STATE		OUT-OF-STATE	
	Public	Private	Public	Private	Public	Private
KY Public Comprehensive Institutions						
Eastern Kentucky University	$2,060	-	$2,060	-	$5,660	-
Western Kentucky University	$2,140	-	$2,140	-	$5,740	-
Morehead State University	$2,150	-	$2,150	-	$5,750	-
Murray State University	$2,120	-	$2,120	-	$5,720	-
Northern Kentucky University	$2,120	-	$2,120	-	$5,720	-
Kentucky State University	$2,050	-	$2,050	-	$5,650	-
KY Independent Institutions						
Alice Lloyd College	-	$480	-	$480	-	$480
Asbury College	-	$11,237	-	$11,237	-	$11,237
Bellarmine University	-	$10,970	-	$10,970	-	$10,970
Berea College	-	$195	-	$195	-	$195
Brescia University	-	$8,570	-	$8,570	-	$8,570
Campbellsville University	-	$7,200	-	$7,200	-	$7,200
Centre College	-	$14,600	-	$14,600	-	$14,600
Cumberland College	-	$8,430	-	$8,430	-	$8,430
Georgetown College	-	$10,190	-	$10,190	-	$10,190
Kentucky Christian College	-	$5,984	-	$5,984	-	$5,984
Kentucky Wesleyan College	-	$9,220	-	$9,220	-	$9,220
Lindsey Wilson College	-	$8,280	-	$8,280	-	$8,280
Midway College	-	$8,100	-	$8,100	-	$8,100
Pikeville College	-	$6,500	-	$6,500	-	$6,500
Spalding University	-	$10,300	-	$10,300	-	$10,300
St. Catharine College	-	$5,000	-	$5,000	-	$5,000
Thomas More College	-	$11,110	-	$11,110	-	$11,110
Transylvania College	-	$13,260	-	$13,260	-	$13,260
Union College	-	$9,340	-	$9,340	-	$9,340
KY Statewide Average by Sector	***$2,107***	***$8,367***	***$2,107***	***$8,367***	***$5,707***	***$8,367***
Comparison States a/						
Connecticut	-	$17,883	-	$17,883	-	$17,883
New Jersey	$3,991	$12,981	$3,991	$12,981	$6,040	$12,981
Massachusetts	$3,437	$17,651	$3,437	$17,651	$8,017	$17,923
New York	$3,612	$14,296	$3,612	$14,296	$8,079	$14,296
Minnesota	$3,532	$14,361	$3,532	$14,361	$8,410	$14,361
California	-	$13,916	-	$13,916	-	$13,916
Delaware	-	$11,719	-	$11,719	-	$11,719
Illinois	-	$12,706	-	$12,706	-	$12,706
Maryland	$4,908	$15,495	$4,908	$15,495	$9,076	$15,495
Comparison States Average by Sector	***$3,896***	***$14,556***	***$3,896***	***$14,556***	***$7,924***	***$14,587***
National Average by Sector	***$2,948***	***$12,170***	***$2,948***	***$12,170***	***$7,122***	***$12,187***

a/ State whose per capita income has been consistently above the national average since 1980

Source: 1997-98 IPEDS Institutional Characteristics Survey

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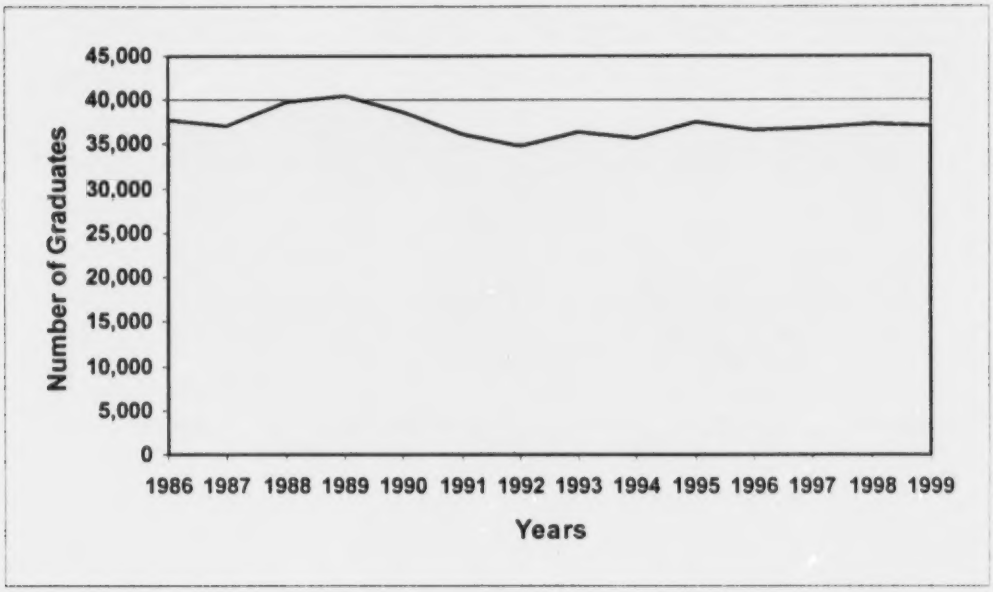
As a result of the low tuition policy in Kentucky, the state's independent colleges and universities experience tremendous pressure to maintain tuitions low enough to be competitive while adequate enough to cover the cost of educating students. As a result, the average tuition and fee levels for Kentucky's independent institutions are well below that of other states as also shown in Exhibit 6-2. In fact, the Kentucky average ($8,367) is only two-thirds of the national average ($12,170).

6.1.4 The Environment: Competition for Students

Postsecondary institutions in Kentucky have been experiencing an intense level of competition for students for several reasons. First, there has been virtually no growth in the number of high school graduates in Kentucky over the last 15 years. Exhibit 6-3 shows that, while rising to a high of 40,000 in 1989 and then dropping to a low of approximately 35,000 in 1992, the annual number of public high school graduates have been at about 37,000 per year on average. Second, one of the major goals of the Strategic Agenda is to increase postsecondary enrollments in Kentucky by an additional 80,000 students by the year 2020. This is a 50 percent increase over current enrollments. Since the numbers of high school graduates are remaining steady, this means that all colleges and universities will have to work even harder in the future to recruit those students who have historically been excluded from such opportunities, including non-traditional and working students, economically disadvantaged, academically underprepared, and first generation college students. With the pressure to increase enrollments and no significant increases in the annual number of high school graduates, it is almost certain that the state's highly subsidized public institutions are, intentionally or unintentionally, recruiting students who would attend an independent institution in the state.

EXHIBIT 6-3
NUMBERS OF PUBLIC HIGH SCHOOL GRADUATES, 1986-1999



Certainly, the Recruitment and Retention incentive funding is putting added pressure on independent colleges in the student recruitment arena. Through this program, public institutions receive financial incentives from the state for enrolling more Kentucky students, with added incentives to enroll students from counties with historically low college-going rates. No such incentives are available to independent institutions to help meet the state's goals of increasing enrollment. So, not only does this policy fail to make use of a valuable postsecondary delivery system, but it may have the unintended consequence of moving students to public postsecondary education at the expense of the independent sector. Additionally, public institutions are increasingly reaching out to students across the state's border to meet enrollment goals. Some public institutions are using state dollars to discount or lower tuition for these out-of-state students, putting independent colleges at a competitive disadvantage.

6.1.5 *The Environment: Expansion of Public Branch Campuses, Off-Campus Centers, and Regional Postsecondary Centers*

Public college and university branch campuses and off-campus centers that have been developed throughout the state also have caused an increase in the competition for students, particularly for independent institutions. Often developed in close proximity to existing independent colleges, these low-priced, state-supported entities have the unintended consequence of drawing students away from independent colleges and universities. Certainly, this competitive pressure played a role in the closure of Sue Bennett College and Lees College – two Kentucky independent institutions with long histories of service in their communities. The recent approval of five regional postsecondary centers around the state will cause additional pressures on independent institutions located in those areas.

The current incentive structure and regulatory environment in Kentucky encourages public institutions to increase enrollments and allows them the flexibility to take the actions necessary to achieve that objective. Independent institutions can almost certainly expect the public institutions to reach aggressively into their traditional markets in order to meet state goals. At best, this environment will cause reluctance among some independent institutions to take growth risks, thereby robbing the state of the potential increased services that the institutions could offer. At worst, the intense and growing competition from the public sector will threaten the viability of some of Kentucky's independent institutions.

The current environment is further characterized by the fact that no mechanism exists for the independent institutions to "bid" on providing the same off-campus services that the public institutions are providing. The current state decision making environment, in essence, is giving its public institutions a monopolistic position in locating public

branch campuses and off-campus centers, even though the independent institutions can often provide the same service at a lower cost to the state.

6.1.6 *The Environment: Misinformed Public Perceptions About Independent Institutions*

Independent institutions face another challenge in student recruitment, fundraising, and state relations. The strengths and potential contributions of independent colleges and universities sometimes are clouded by sketchy or misinformed public perceptions. In fact, a recent public opinion research report, commissioned by AIKCU and conducted by Horizon Research International, revealed that the general public is often unaware that:

- Tuition is higher in the independent sector because it must more closely reflect the actual cost of educating a student while low tuition can be maintained in the public sector because of the state subsidy provided to educate students in those institutions.
- Tuition in the independent sector can be affordable to students through federal and state financial aid programs. Furthermore, independent colleges and universities annually provide a significant amount of institutional aid to defray tuition and educational expenses for their students.
- Those independent institutions that are affiliated with an organized religion generally receive minimal support from their affiliated denomination.
- Independent institutions are not bastions for the intellectual elite or the children of high-income families. In fact, they are as likely (and oftentimes more likely) to enroll low-income, first-generation, and adult students as public universities in Kentucky.

In our interviews with state officials they observed that many people in state decision-making position share these same generally held public misconceptions about independent higher education.

6.1.7 *The Environment: Competition for Private Donor Dollars*

Whereas the state appropriation is the largest single revenue source for Kentucky's public institutions, most of the state's independent colleges and universities are primarily reliant on private donor funding. These private donor funds, along with tuition revenues, are essential in covering the full cost of educating students. Two factors have radically altered the donor-based funding environment for the independent colleges and universities: a change in corporate giving patterns and the development of matching state fund programs for public institutions.

AICKU presidents and business trustees of the organization described a change in corporate giving trends in Kentucky. As a result of corporate mergers and acquisitions, the locus of control for charitable giving decisions oftentimes is no longer within the state. Additionally, corporations are increasingly looking for a "return on investment." Purely altruistic giving is less common as corporations increasingly choose to fund initiatives that are likely to benefit their interests, such as support for specific job preparation programs or high profile athletic teams.[1] While the independent colleges and universities are prepared to seek such partnerships, the public institutions are vigorously pursuing the same kinds of opportunities and are an increasing source of competition for private and corporate funds.

With the introduction of "bucks for brains" and other state-funded programs that provide incentive funding to public institutions to raise private dollars, public institutions in Kentucky have become more aggressive and sophisticated in private fundraising. In our interviews with the presidents of the independent colleges, we heard numerous anecdotal stories of the impact that the aggressive pursuit of private donor dollars by public institutions is having on the state's independent institutions. It is clear that the

[1] *Qualitative Perceptions of the Kentucky Independent College Foundation – College and University Presidents*, October 1998.

private donor fundraising environment in Kentucky has changed forever. The public institutions, which now have large fundraising staffs, are likely to be well financed and strong competitors for private donor dollars for the foreseeable future. Many officials at the independent institutions particularly fear the loss of private donor dollars when the next major economic downturn occurs.

6.1.8 The Environment: Student Financial Aid

Many of the institutional interviewees were complimentary of Governor Patton's leadership in the area of student aid programs. One described his position on higher education as "enlightened and forthcoming." Specifically, the Governor advocated the investment of lottery funds into the merit-based Kentucky Educational Excellence (KEES) Program while increasing the state's commitment to need-based financial aid. Indicative of the Governor's commitment, the state funds dispersed for need-based financial aid for students in the independent sector increased dramatically (34 percent) from the 1997-98 academic year ($11,677,643) to the 1998-99 academic year ($15,631,861).

Over the years, state-funded student financial aid has played an essential role in allowing lower- and middle-income Kentucky students to attend independent institutions in the state. In addition to KEES, independent sector students are eligible for two need-based aid programs, including: the College Access Program (available to public and independent sector students) and the Kentucky Tuition Grant (a tuition equalization grant with a need component which is available exclusively to independent sector students). The AIKCU presidents, in particular, noted the tremendous benefits these programs have had for their students. State-provided assistance to students has helped to reduce the tuition differential between the public and independent sectors, enabling students to choose the college or university that best fits their needs. These policies promote

access and choice in postsecondary education. However, they also promote efficiency since the state, in fulfilling its obligation to provide postsecondary education to its citizens, pays significantly less for students who are educated in the independent sector. Clearly, a small investment in student financial aid for independent sector students has produced positive results for the state, independent institutions, and the citizens of the Commonwealth.

6.1.9 The Environment: The Need for Cost Containment

As described at the beginning of this chapter, many postsecondary institutions in the U.S. are facing tremendous financial pressures. Nationwide, small independent institutions with modest endowments are facing challenges in maintaining reasonable tuitions while meeting their financial obligations. While many are providing increasing levels of institutional student aid, they are struggling to keep up with the funds required to provide an adequate level of up-to-date technology as well as for other high-cost expenditures such as debt retirement, staffing, marketing, and public relations. Many of the AIKCU colleges and universities in Kentucky are feeling these same kinds of pressures, and readily admit the need for institutional cost reductions as well as cooperative arrangements to save money. Potential cost reductions will be addressed in subsequent chapters of the report.

6.1.10 The Environment: The Public Policy Process

Historically, independent institutions in Kentucky have had only a minor role and limited input into statewide postsecondary education policy issues and decisions. The recent reforms, however, have suggested the possibility that this may change. AIKCU representatives are increasingly being included in dialogue about statewide policy decisions. The public and independent sector chief academic officers have initiated joint

meetings to discuss issues of common interest and concern. Additionally, AIKCU members have been given access to the new academic program proposal process through an online feedback process. Certainly, progress has been made in the area of increased communication between the sectors. However, the overall culture of the postsecondary education policy arena does not yet fully recognize the independent sector as a full partner in helping the state meet the postsecondary needs in Kentucky..

The AIKCU leadership is currently positioning the Association to have a significant impact on the achievement of statewide postsecondary education goals in the Commonwealth. This includes realigning the organization to more effectively influence public policy and facilitating the transition to an environment in which cooperation with the state is at the forefront of the agenda. This kind of organizational transition will require the commitment and involvement of AIKCU presidents. Significant attention at the institutional level must now be devoted to governmental relations. **Overwhelmingly and repeatedly, policymakers who were interviewed for this study asserted the need for independent college and university leaders to keep their legislators informed, to get organized and involved, and to articulate their views on important issues.** One policy maker also suggested the need for a public forum to initiate further dialogue about collaborating with the independent sector. The independent sector clearly has allies among state policymakers – but the issue has not yet made it to the forefront of the public policy agenda.

6.2 ***The Impact of the Environment on Independent Postsecondary Education in Kentucky***

Any evaluation of the impact of this environment, which is still in flux, must be considered preliminary at this point in time. There is little doubt that the postsecondary environment in Kentucky is transitioning to one that will support the desired

improvements in Commonwealth's economy. However, there is early indication that this environment will not be advantageous to the independent sector and may ultimately reduce the size and contributions of the independent sector thereby robbing the state of highly cost-effective part of is higher education system. A number of the presidents of the independent institutions described the current environment for their institutions as "challenging," "intensely competitive," "unintentionally negative," or "substantially disadvantageous." Specific concerns primarily centered on increased competition for students, increased competition for private donor dollars, lack of opportunities to offer their services to the state and the lack of input into the statewide postsecondary education decision-making process.

6.2.1 Impact on Enrollments

As addressed previously in this chapter, the state has made a commitment to increase postsecondary enrollments by 50% by 2020, and has provided the public institutions with the regulatory flexibility and funding to respond to this directive. With regard to enrollments, some examples of actions taken by the state's public institutions include:

- Some public universities are significantly reducing out-of-state tuition and fees for students in targeted geographical areas. This action does not increase the education of Kentuckians (the stated goal of the reform effort). However, it does cause significant reductions in the enrollments of some independent institutions located near the areas targeted by the public institutions. Additionally, this policy results in the state highly subsidizing the education of out-of-state students rather than devoting resources to Kentucky citizens.

- When Eastern Kentucky University opened a two-year extended campus center in Corbin, Sue Bennett College was not able to stay in business. Now the Corbin site will expand to four-year offerings in 2002. No attempts to collaborate with the independent sector were made prior to these decisions. The State is spending $8 to $12 million of state funds on the expansion rather than exploring more economical and creative alternatives.

- Historically, Owensboro was an educationally underserved area. At the urging of state and local officials, Brescia College was

established there in 1950 and Kentucky Wesleyan was courted into relocating there a short time later. The community leadership desired more higher education opportunities in the mid-1980's and established Owensboro Community College (OCC) in 1988. Overcoming the initial negative consequences of competing with the new low-priced provider, Kentucky Wesleyan and Brescia have been successful in collaborating with OCC on articulation issues. More recently, however, the independent colleges are being challenged by the expansion of Western Kentucky University (WKU) – and a stated aspiration for WKU to become a flagship institution in Kentucky. WKU now offers a range of undergraduate courses in Owensboro at the OCC campus.

- In some cases, the public institutions have replicated successful programs offered by independent institutions in the same geographical market. In at least one case, an independent institution had major startup investments in a new and successful nursing program only to have a public university enter the market with the same type of program. The independent institution had to close its program, resulting in the state spending about $19,000 (plus all of its capital costs) more per degree than it was previously spending. No serious consideration was given by the state to contracting with the independent institution to provide the program, in spite of the fact that it already had the facilities, equipment, curricula, and faculty in place.

As illustrated in Exhibit 6-4, AIKCU headcount enrollments generally have increased from fall 1996 to fall 2000 despite the increased competition related to student recruitment. Although the independent institutions experienced a 4 percent increase in enrollments for fall 1998, the following year was characterized by a 1 percent decline (approximately 300 students). The losses were barely recouped in fall 2000 with an increase of 2 percent (more than 400 students).

EXHIBIT 6-4
FALL ENROLLMENTS IN AIKCU INSTITUTIONS, 1996-2000

Institutions (Random Order)	Fall 1996 Enrollments	Fall 1997 Enrollments	Fall 1998 Enrollments	Fall 1999 Enrollments	Fall 2000 Enrollments
Institution A	511	501	502	509	557
Institution B	814	830	855	953	1,155
Institution C	965	1,001	1,052	1,022	1,055
Institution D	1,363	1,425	1,467	1,415	1,364
Institution E	982	1,011	986	835	908
Institution F	976	1,021	1,073	1,070	1,083
Institution G	713	774	723	747	681
Institution H	1,515	1,464	1,517	1,522	1,590
Institution I	753	711	783	695	751
Institution J	1,167	1,258	1,287	1,317	1,345
Institution K	1,530	1,583	1,660	1,607	1,601
Institution L	351	345	472	477	525
Institution M	1,419	1,573	1,585	1,704	1,638
Institution N	1,503	1,626	1,671	1,672	1,736
Institution O	1,237	1,322	1,445	1,481	1,416
Institution P	573	547	561	563	587
Institution Q	2,785	2,678	2,926	2,880	2,854
Institution R	1,614	1,691	1,739	1,662	1,702
Institution S	1,363	968	948	816	834
Total	**22,134**	**22,329**	**23,252**	**22,947**	**23,382**
Percent Change	**NA**	**1%**	**4%**	**-1%**	**2%**
Source: AIKCU Finance Reports/IPEDS					

6.2.2 Impact on Tuition and Fee Revenues

The maintenance of enrollment levels in the state's independent institutions in the new environment, however, has come at a cost to the institutions. To maintain student enrollments, Kentucky's independent institutions have had to increase the level of institutional aid provided to students. Over the last decade, as shown in Exhibit 6-5, the average percentage of tuition and fees discount per year for all institutions has increased from 12 percent in 1990 to 22 percent in 1999. In 1999, five of the Kentucky independent institutions were discounting tuition and fees by 40 percent or more. Over the same ten-year period, the average net tuition and fee revenue per FTE decreased from $7,419 in 1995 to $6,985 in 1999. This practice of deep discounting cannot continue without a serious impact on both the solvency of these institutions and the quality of their programs.

EXHIBIT 6-5
PERCENTAGE OF TUITION AND FEES DISCOUNT BY YEAR FOR AIKCU INSTITUTIONS - 1990, 1995, 1999

Institutions (Random Order)	1990 % Discount	1995 % Discount	1999 % Discount
Institution A	36%	37%	41%
Institution B	0%	17%	0%
Institution C	14%	17%	25%
Institution D	13%	28%	39%
Institution E	6%	11%	16%
Institution F	16%	23%	40%
Institution G	21%	26%	44%
Institution H	0%	0%	0%
Institution I	15%	16%	21%
Institution J	5%	9%	15%
Institution K	14%	27%	0%
Institution L	1%	7%	0%
Institution M	9%	14%	28%
Institution N	15%	21%	40%
Institution O	19%	16%	0%
Institution P	9%	11%	18%
Institution Q	5%	13%	22%
Institution R	14%	23%	43%
Institution S	21%	19%	16%
Average	**12%**	**18%**	**22%**
Excluding Berea	**12%**	**17%**	**21%**

Source: AIKCU Finance Reports/IPEDS

EXHIBIT 6-6
NET TUITION AND FEES REVENUE PER FTE BY YEAR FOR AIKCU INSTITUTIONS–1990, 1995, 1999

Institutions (Random Order)	1990 per FTE	1995 per FTE	1999 per FTE
Institution A	$3,893	$6,358	$4,909
Institution B	$8,479	$12,307	$9,119
Institution C	$3,240	$4,529	$4,931
Institution D	$5,350	$9,573	$7,317
Institution E	$5,495	$8,025	$4,588
Institution F	$6,496	$9,353	$11,687
Institution G	$6,745	$9,316	$11,315
Institution H	$5,058	$6,553	$5,594
Institution I	$4,537	$6,045	$6,498
Institution J	$2,944	$4,741	$5,239
Institution K	$5,073	$8,307	$10,607
Institution L	$1,027	$1,124	$1,240
Institution M	$3,852	$6,089	$8,528
Institution N	$4,979	$8,623	$7,952
Institution O	$8,460	$11,376	$6,525
Institution P	$5,596	$7,998	$8,251
Institution Q	$5,812	$5,855	$6,140
Institution R	$5,030	$7,719	$5,462
Institution S	$5,239	$7,065	$6,806
Average	**$5,121**	**$7,419**	**$6,985**

Source: AIKCU Finance Reports/IPEDS

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6.2.3 *Impact on Donor Funds for Independent Institutions*

Fortunately, the increased competition for donor funds has occurred during a time of growing economic prosperity, so the state's independent institutions have not yet experienced dramatic declines in their historic levels of donor gifts. However, the growth in donor funds expected during times of prosperity has not been experienced by the state's independent institutions and, in 1999, the institutions actually experienced a decline in private giving on a FTE basis. As shown in Exhibit 6-7, overall independent sector revenues from private giving per FTE increased from $4,036 in from 1997 to $5,311 in 1998; however, the level declined in 1999 to $4,981. As shown in Exhibit 6-8, only one institution experienced a decline in private donor revenue per FTE student between 1996 and 1997. However, seven institutions experienced a decline from the previous year in 1998 and nine in 1999. This raises the question as to what the impact will be during the next economic recession. The effect of recent state policies encouraging public universities to raise private sector funds is not clear; however, anecdotal evidence suggests that some donor funds that would have previously gone to the state's independent institutions have been diverted to the state's public institutions.

6.3 *Early Assessment of the Environment*

It has only been a short time since the postsecondary education reforms have transformed the environment in Kentucky. Without reservation, the opinion of all those who were interviewed is that the reforms are making and promise to make even greater improvements in both quantity and quality of education in Kentucky. The public institutions are invigorated by their assigned goals, significantly increased local administrative and financial flexibility, and major increases in state and donor funds. At this point in the reform's history, there is little doubt that the reforms will make major contributions to building Kentucky's economy, thus enabling the state to be much more competitive in the world economy.

EXHIBIT 6-7
PRIVATE GIFTS, GRANTS, AND CONTRACTS FOR AIKCU INSTITUTIONS, 1997–1999

Institutions (Random Order)	1997 per FTE	1998 per FTE	1999 per FTE
Institution A	$3,053	$3,363	$3,398
Institution B	$6,714	$10,444	$4,351
Institution C	$3,560	$4,429	$5,173
Institution D	$5,661	$6,899	$4,645
Institution E	$1,002	$3,463	$6,545
Institution F	$1,948	$1,459	$2,291
Institution G	$2,310	$3,528	$3,217
Institution H	$1,667	$767	$1,538
Institution I	$6,188	$6,398	$8,309
Institution J	$2,157	$1,501	$2,645
Institution K	$2,593	$4,815	$3,025
Institution L	$2,771	$3,271	$2,025
Institution M	$4,817	$4,567	$7,108
Institution N	$7,859	$3,252	$2,275
Institution O	$5,745	$5,744	$9,860
Institution P	$10,267	$12,607	$18,796
Institution Q	$4,368	$19,413	$6,075
Institution R	$2,634	$2,318	$1,438
Institution S	$1,369	$2,665	$1,917
Average	$4,036	$5,311	$4,981

Source: AIKCU Finance Reports/IPEDS

EXHIBIT 6-8
AIKCU INSTITUTIONS RECEIVING FEWER PRIVATE FUNDS PER FTE THAN THE PREVIOUS YEAR, 1997–1999

Institutions (Random Order)	1997	1998	1999
Institution A			
Institution B			X
Institution C			
Institution D			X
Institution E	X		
Institution F		X	
Institution G			X
Institution H		X	
Institution I			
Institution J		X	
Institution K			X
Institution L			X
Institution M		X	
Institution N		X	X
Institution O		X	
Institution P			
Institution Q			X
Institution R		X	X
Institution S			X
Total	1	7	9

Source: AIKCU Finance Reports/IPEDS

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However, while public sector institutions have been invigorated by the recent infusion of funds, there is already mounting evidence that the independent institutions are not being utilized to their full potential and, even worse, are experiencing unintended consequences as a result of policies that have, for the most part, been directed at the public sector.

7.0 THE ROLE OF THE STATE IN CREATING A MORE EFFECTIVE, EFFICIENT, AND COMPETITIVE INDEPENDENT SECTOR

7.0 THE ROLE OF THE STATE IN CREATING A MORE EFFECTIVE, EFFICIENT, AND COMPETITIVE INDEPENDENT SECTOR

7.1 The State's Dilemma

The goal of adding 80,000 students to Kentucky's total higher education enrollments by 2020 is an ambitious, but critical, goal for the state's economy. To have any hope of achieving this objective, the state must fully utilize all of its higher education resources, both public and independent. **To date, however, virtually all of the state's purchases of higher education services has been focused on the public institutions. Perhaps of even more concern is that the state's higher education programs and policies have the potential of shifting students and donor funds away from the state's independent institutions and into the public institutions where the students will cost the state over six times as much to educate.** As a result, those programs and policies potentially threaten the long-term viability of all except the most well endowed independent institutions. To the extent that Kentucky's independent institutions are forced out of business over the next decade by state policies and programs, the state not only picks up the additional costs of educating students but also loses the geographical access and program quality that those institutions provide to students, many in underserved areas. In doing so, the state reduces its ability to achieve its higher education goals.

7.2 Refinements to the Reform Effort

While the reform effort, by necessity, had to concentrate initially on making critically needed changes in the structure and operations of the state's public higher education systems, state officials now need to concentrate on also utilizing its

independent institutions. **As shown earlier in Chapter 5, other states have been highly successful in using the resources of their independent institutions and, in doing so, have reduced the costs of higher education to the state's taxpayers and achieved greater higher education production rates.** Kentucky can achieve these same two critically important successes if it carefully structures a program to use the resources of its independent institutions, as well as those of its public institutions.

7.3 *Important Issues to be Considered by Kentucky Officials*

Three critically important questions for Kentucky's leaders need to be addressed:

- What potential advantages do Kentucky's independent colleges and universities offer to the state in achieving its important higher education goals?
- What are the alternative ways in which the state can more effectively utilize the potential services of its independent institutions?
- What barriers exist to the state in more effectively utilizing its independent institutions?

7.4 *Potential Advantages Offered by Kentucky's Independent Colleges and Universities*

First, it needs to be clearly stated that Kentucky officials should make no effort to keep any institution, public or independent, alive simply for the sake of keeping it alive. Kentucky should provide state level programs, policies, and funds only to achieve clearly established state higher education goals in a cost-effective manner. To this end, an important consideration for Kentucky officials is "What are the advantages that the Commonwealth's independent institutions offer to the state in achieving its critical higher education goals?" The advantages that the independent institutions offer were presented earlier in Chapter 4 and are repeated here in summary form for emphasis.

7.4.1 Access

In spite of the Internet age, it is clear that geographical access is still one of the strongest determinates of higher education enrollment rates. The presence of local educational facilities, programs, faculty, and students not only provides local access, but also local knowledge about educational opportunities and the impact of higher education on one's success in life. Local access is critical. The state cannot achieve its higher education enrollment goals without the necessary geographical access.

As illustrated in Chapter 4, the 19 independent colleges and universities affiliated with AIKCU are located in 17 counties throughout the Commonwealth. These institutions provide the state with geographical access that would cost the state millions in state dollars and years in time to duplicate.

7.4.2 Access in Underserved Areas

Perhaps of even more significance, Kentucky's independent colleges and universities offer the state immediate higher education access to many of the state's traditionally underserved populations. As illustrated in Chapter 4, 15 of Kentucky's independent institutions are located either in an underserved county or adjacent to an underserved county.

7.4.3 A High Student Retention and Graduation Rate

As shown in Exhibit 7-1, Kentucky's independent colleges and universities are much more effective at retaining and graduating students. The independent institutions produced one baccalaureate degree per 5 FTE student years, compared to one degree per 5.73 FTE student years at the state's regional universities. Thus, the independent institutions offer the state an effective system for producing degrees.

EXHIBIT 7-1
RATIO OF FTE UNDERGRADUATE STUDENTS TO BACHELOR'S DEGREES GRANTED FOR KENTUCKY'S REGIONAL AND INDEPENDENT INSTITUTIONS (EXCLUDES TRANSFERS IN) 1997–98 THROUGH 1999–00

Institutions	Fall 1997 FTE	1997/98 Baccalaureate Degrees	Fall 1998 FTE	1998/99 Baccalaureate Degrees	Fall 1999 FTE	1999/00 Baccalaureate Degrees	3 Yr Total FTE Students	3 Yr. Total Baccalaueate Degrees	3 Yr Total FTE Students per Baccalaureate Degree
Public Regional									
EKU	9,984 9	1717	10,053 4	1762	9,716 3	1663	29,755	5,142	5 79
KSU	1,655 6	226	1,646 6	193	1,767 0	222	5,069	641	7 91
MoSU	5,288 4	954	5,289 9	911	5,216 4	971	15,795	2,836	5 57
MuSU	5,751 2	1064	5,951 0	1057	5,913 4	1274	17,616	3,395	5 19
NKU	7,227 8	1122	7,353 3	1163	7,259 3	1142	21,840	3,427	6 37
WKU	9,467 1	1716	9,731 2	1909	9,945 0	1753	29,143	5,378	5 42
Total	39,375 0	6,799 0	40,025 4	6,995 0	39,817 4	7,025 0	119,218	20,819	**5.73**
Independent									
Alice Lloyd	476 8	69	454 0	78	463 9	67	1,395	214	6 52
Asbury	1,096 2	218	1,139 6	261	1,188 1	240	3,424	719	4 76
Bellarmaine	1,449 5	358	1,581 2	359	1,514 2	348	4,545	1,065	4 27
Berea	1,296 9	270	1,380 3	269	1,382 9	253	4,060	792	5 13
Brescia	399 5	95	442 2	97	445 4	130	1,287	322	4 00
Campbellsville	1,156 9	161	1,295 1	209	1,131 0	218	3,583	588	6 09
Centre	779 3	185	822 7	241	795 7	236	2,398	662	3 62
Cumberland	1,346 8	219	1,375 8	266	1,305 0	260	4,028	745	5 41
Georgetown	1,221 9	211	1,285 2	230	1,256 0	216	3,763	657	5 73
Ky Christian	466 6	84	504 4	81	500 5	83	1,472	248	5 93
Ky Wesleyan	638 3	112	610 1	129	638 4	109	1,887	350	5 39
Lindsey Wilson	1,040 7	122	1,117 4	130	1,094 6	146	3,253	398	8 17
Midway	628 2	107	608 8	110	540 6	140	1,778	357	4 98
Pikeville	615 7	99	585 0	117	615 7	134	1,816	350	5 19
Spalding	637 5	157	667 7	174	696 4	213	2,002	544	3 68
Thomas More	885 9	255	997 8	244	914 2	263	2,798	762	3 67
Transylvania	1,025 6	186	1,087 3	188	1,069 4	237	3,182	611	5 21
Union	520 1	125	561 9	137	481 3	129	1,563	391	4 00
Total	15,682 4	3033	16,516 5	3,320 0	16,033 3	3422	48,232	9,775	**4.93**

Source: Council on Postsecondary Education

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7.4.4 Ready Access to Facilities at No or Limited Costs to the State

Unlike new branch campuses or off-campus centers which require state funds for acquisition or construction, maintenance, and operations, the state's independent institutions offer the state ready access to higher education facilities to significantly expand enrollments at no cost to the state. In almost all cases, these facilities are located on attractive sites designed specifically to support higher education programs. In total, our interviews with institutional officials indicated that the institutions could enroll approximately 3,500 more students without having to add any additional facilities. Even where new facilities might be required, most independent institutions already own the land and many have the ability to acquire part or all of the capital funds, provided that they have a reliable source of revenue to ensure adequate enrollments and some assurance that public sector extended campuses and regional centers will not be built at a nearby site.

7.4.5 Access to Fully Developed Degree Programs

The independent institutions offer the state ready and immediate access to fully developed degree programs with a proven history of producing graduates who perform well in the job market and in graduate schools. By purchasing services from the independent institutions, the state can immediately expand the availability of quality higher education programs all over the state. The programs offer the full array of courses, staffing, and library resources necessary to attain a degree within four years. Branch campuses and off-campus centers of public institutions, on the other hand, seldom offer the full array of courses required for a degree and, when they do, the courses are seldom offered frequently enough for a student to graduate in four years.

7.4.6 *Lower Cost Alternative*

Kentucky's independent institutions can enroll additional students at a much lower cost per student than the state is currently paying to the public institutions. The reason for this lower cost is that the independent institutions already have the overhead structure in place to absorb the additional enrollments. As shown later in Chapter 8.0, the overhead costs per student in the independent institutions is 50 to 70 percent higher than the same costs of the public institutions because of the larger sizes of the public institutions. We estimate that Kentucky's independent institutions could add significantly more students at a marginal cost to the state of about $3,500 (in 2000-2001 dollars) per student per year. The same student would cost the state about $5,800 per year at its regional public universities.

7.4.7 *Allows State to Focus Resources on Other Postsecondary Priorities*

By utilizing independent institutions to increase undergraduate enrollments and bachelor's degrees, the state can maximize the resources it commits to building its research capacity and strengthening its workforce training needs – two fundamental areas of need identified by the 1997 Postsecondary Education Improvement Act. These are critically important goals that can only be achieved through state action and the maximum commitment of state resources. By partnering with independent colleges to enhance and expand bachelor's level education, the state can concentrate additional resources in these other critical areas.

7.5 Alternative Ways for the State to Purchase Services From Its Independent Institutions

Public institutions often argue that the state should not "subsidize" independent institutions with state tax dollars. This, of course, is an ironical argument, given the state is the single largest funding source of public institutions.

The issue is not who is or is not subsidized, but rather what are the most efficient and effective ways for the state to purchase higher education services for its citizens.

7.5.1 Similarities and Differences Between Public and Independent Institutions

In reality, public institutions and the AIKCU independent institutions in Kentucky today have far more similarities than differences. Similarities include:

- Each institution is chartered by the state and governed by a board of trustees that holds each institution in the public trust.
- Each institution operates as a non-profit corporation.
- Each institution solicits and receives donor funds.
- Each institution is accredited by the Southern Association of Colleges and Schools.
- The requirements for similar degrees are relatively equivalent at each institution.
- Federal student aid programs and most state aid programs are equally available to students at each institution.
- Each contributes significantly to providing higher education services to the people of Kentucky.

The major difference between public and independent higher education institutions relates to revenue sources. While independent colleges and universities derive the majority of their revenue from tuition and private giving, public institutions are highly subsidized by the state. Kentucky purchases most (about 98 percent) of its higher education services from the public institutions thereby providing them with a

revenue stream of over $1 billion per year. Another difference, although not nearly as significant, is that many independent institutions have religious affiliations. The degree of these affiliations varies, but in most cases, a denomination provided assistance in establishing the institution and may still provide a small level of annual financing. In contrast, the public institutions were established by the state and continue to be governed by the state. The church-related issue is discussed later in this chapter.

A review of the similarities and differences between Kentucky's public and independent institutions reveals that both are providing higher education services to the people of Kentucky and both are major contributors to the fulfillment of the state's higher education goals. More importantly, both offer quality opportunities to significantly expand the rate at which the Commonwealth educates its people over the next two decades.

7.5.2 *Criteria for Choosing the Most Effective Ways of Meeting the State's Higher Education Goals*

As indicated above, both the public and the independent colleges and universities offer quality opportunities to meet the state's higher education goals. The criteria for choosing the institutions from which the state will purchase services should not be whether an institution is public or independent, but rather which can achieve the state's goals most effectively and efficiently. When a decision is being made by the state regarding the purchase of specific services in a specific market, equal consideration should be given to the appropriate institutions regardless of whether they are public or independent institutions.

7.5.3 *Alternative Ways to Purchase Services from the Independent Sector*

Because of the differences in funding relationships, Kentucky officials cannot use the same mechanisms to purchase higher education services from its independent institutions as it does to acquire similar services from its public institutions. In many ways, this fundamental difference is a major advantage to the state because it opens up a whole new set of contractual relationships that can be far more effective in meeting the state's needs. Whereas the state funds its public institutions and then "hopes" that they achieve the state's objectives, the state can use performance contracts with the independent institutions and pay them only after they meet contracted goals. For example, the state could offer contracts to independent institutions:

- to pay a given amount for each student they enroll above a base enrollment;
- to pay a given amount for each degree granted above a base number of degrees;
- to pay a given amount for each student enrolled from designated underserved populations or designated underserved geographical counties; and/or
- to establish new degree programs in designated markets with an initial development cost and then payment per enrollee with extra payments for each graduate.

Given Kentucky's state policy of maintaining public institution tuition and fee levels significantly below the levels in most other states, another method of acquiring services from independent institutions would be to increase the level of state financial aid to students at independent institutions. This would extend the state policy of lower tuition and fee levels to the independent sector students and simultaneously help level the playing field between independent and public institutions, more effectively utilize the resources of all the state's institutions, and help ensure that the state's future enrollment goals are met.

7.6 Barriers to More Effective Use of the State's Independent Institutions

The major barrier to greater use of independent institutions to achieve Kentucky's higher education goal of educating 80,000 more students by 2020 is political. Not only is there resistance to the idea of public/private partnerships, particularly when constitutional questions arise, but extensive partnering between the state and independent colleges simply has not been done before. It has not been an issue on the radar screen for many decision makers, and consequently is not viewed as a viable political option.

7.6.1 Independent Institutions Have Not Been Aggressive in Partnering with Government Entities

Historically, Kentucky's independent institutions have not been aggressive in asserting their interests in helping the Commonwealth to fulfill its higher education goals. Most independent institutions have been content to operate totally free of any state restrictions that accompany the sale of their services to the state. In fact, a few have taken rigid stands against any contracts with government funds, often because of restrictions placed on their institutions by donors. Other institutions have philosophically disagreed with the idea of becoming connected with the state in any way and have carefully guarded their "freedom." As a result, Kentucky's public officials have, for the most part, not regarded the purchase of services from its independent institutions as a major option for expanding programs, enrollments, or geographical access. Instead, public officials have simply assumed that the independent institutions will continue to exist, enrolling about 23,000 students per year, and then looked to public institutions to handle almost all of the growth.

7.6.2 State Institutions Have Significant Political Influence

While Kentucky's independent institutions have been relatively silent in state politics, the state's public institutions have been very active. Kentucky's public institutions have designated legislative liaisons who actively seek favorable state legislation and appropriations and are responsive to the identified higher education needs of the state. As a result, state officials have naturally directed their higher education purchasing dollars to the public institutions as the primary sector for expanding higher education services to the state.

Politically, the state's public institutions have generally opposed any major efforts to utilize Kentucky's independent institutions in meeting state higher education goals, especially those programs that involve state funding. As evidence of the strong political position of the state's public institutions, we were told consistently in our interviews with state officials that any additional purchasing of higher education services by the state from its independent institutions politically would be very difficult. It is important to note that the anticipated barrier is "political" and not cost-effectiveness!

7.6.3 Concern About Constitutional Prohibition

One of the arguments made by those who oppose the use of the state dollars to contract with the state's independent institutions is Kentucky's constitutional prohibition against the use of state funds for religious purposes. While this argument is made strongly and often, it is a barrier that can be overcome. The state already purchases higher education services from its independent institutions, through methods such as:

- financial aid to students enrolled in independent institutions;
- tuition equalization in educating osteopathic physicians; and
- contracts to host the Kentucky Governor's School for the Arts the Governor's Scholars Program.

Other states with constitutional provisions similar to Kentucky purchase services from their independent institutions. More importantly, opinions from some of Kentucky's leading law firms have concluded that the constitutional provision, while prohibiting the state from using state funds to support the advancement of any religion, does not prohibit the state from purchasing secular services from higher education institutions with religious affiliations. Copies of these opinions are included in Appendix E.

7.7 Governance Structure

Prior to the 1997 reforms, the postsecondary education system was structured in such a way that virtually all the time and energy of the state coordinating body (the Council on Higher Education) was committed to public institution issues. With the reform, the Council on Postsecondary Education (CPE) and the Strategic Committee on Postsecondary Education (SCOPE) were developed to provide new leadership and vision for postsecondary education. The new focus is on achievement of important state goals. It is appropriate and within the purview of both entities to more adequately utilize the independent institutions in meeting state goals. As stated earlier in this report, there are indications that both groups are open to further involving these colleges and universities in attainment of statewide goals. This process should be accelerated.

7.8 Summary

While Kentucky's independent institutions are critical to the ability of the state to meet its higher education goals, the state continues to purchase almost all of its services from its public institutions. If the 21,000 undergraduate students currently educated by the state's independent institutions were thrown into the public institutions, the annual additional costs to the state's taxpayers would be approximately $97 million, not

counting additional capital expenditures necessary to accommodate the added educational responsibilities. For this reason alone, state decision makers should be concerned about maintaining the Commonwealth's independent institutions.

Even more important, independent institutions offer the state a high quality, ready-made system for achieving its expanded higher education goals at a cost less than currently being paid to the state's public institutions. Statistics from other states prove conclusively that a strong independent higher education sector both decreases the costs to the state and increases the rate of degree productivity—two critical issues for the Commonwealth.

8.0 THE ROLE OF THE INSTITUTIONS IN CREATING A MORE EFFECTIVE, EFFICIENT, AND COMPETITIVE INDEPENDENT SECTOR

8.0 THE ROLE OF THE INSTITUTIONS IN CREATING A MORE EFFECTIVE, EFFICIENT, AND COMPETITIVE INDEPENDENT SECTOR

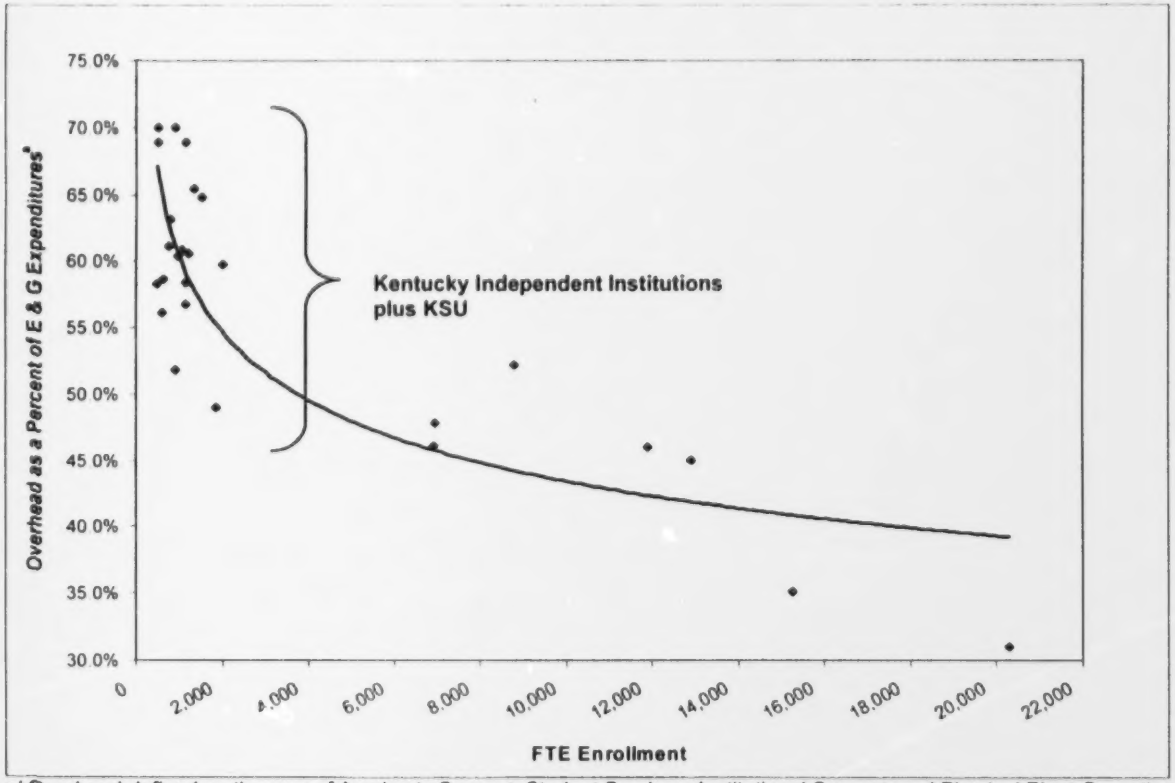
To continue effectively serving their traditional role, to be an attractive alternative to the continued expansion of public higher education institutions in Kentucky, and to be successful in a highly competitive environment, independent institutions must find ways to become more efficient and effective. In particular, independent institutions must contain costs in order to maintain their competitiveness and viability in the future. Consequently, there is a need for institutional officials to develop cooperative initiatives and to "think outside the box" for business process improvements and cost controls.

8.1 Overhead Costs

One of the major cost challenges that Kentucky's independent institutions face is their high per student overhead cost caused by their small sizes, which range from about 500 to 2,000 FTE students compared to 6,000 to 12,000 FTE students in the state's comprehensive universities.

As shown in Exhibit 8-1, the overhead costs in Kentucky's independent institutions range primarily from 55% to 70% of total costs compared to 30% to 50% from Kentucky's larger public institutions. On an FTE student basis, overhead costs in Kentucky's independent institutions ran from about $4,000 to over $9,000 per year (an average of $5,745) in 1995 to 1996 (the last year for which comparable data are available) compared to about $3,000 at the state's larger public institutions, as shown in Exhibit 8-2.

EXHIBIT 8-1
ECONOMIES OF SCALE IN KENTUCKY INSTITUTIONS OF POSTSECONDARY EDUCATION AS EVIDENT IN THE RELATIONSHIP OF OVERHEAD AS A PERCENT OF UNRESTRICTED E & G EXPENDITURES AND FTE ENROLLMENT



a/ Overhead defined as the sum of Academic Support, Student Services, Institutional Support, and Physical Plant Operation & Maintenance (O & M) expenditures. This value calculated for Overhead is divided by Educational and General (E & G) expenditures less Scholarships & Fellowships and Transfers to reach the percentage depicted above.

Source: 1995-96 IPEDS Finance Survey.

EXHIBIT 8-2
COMPARISON OF OVERHEAD COSTS PER FTE STUDENT BETWEEN KENTUCKY'S PUBLIC AND INDEPENDENT INSTITUTIONS 1995-96 a/

Kentucky Institutions	Overhead Cost per FTE Student b/
Public Regional	
Institution A	$3,057
Institution B	3,207
Institution C	3,783
Institution D	3,193
Institution E	3,159
Average	$3,280
Independent	
Institution A	$3,587
Institution B	5,737
Institution C	5,752
Institution D	4,915
Institution E	9,858
Institution F	9,233
Institution G	5,274
Institution H	9,221
Institution I	4,784
Institution J	5,795
Institution K	5,692
Institution L	3,393
Institution M	4,917
Institution N	4,696
Institution O	4,048
Institution P	6,196
Institution Q	5,383
Institution R	4,918
Average	$5,745

a/ 1995-96 data utilized due to unavailability of later IPEDS data for independent institutions.

b/ Overhead cost represents the sum of Academic Support, Student Services, Institutional Support, and Plant Operation & Maintenance expenditures.

Source: 1995-96 IPEDS Finance and Fall Enrollment. 1995-96 is the latest year for which comparable data are available.

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EXHIBIT 8-3
COMPARISON OF TOTAL COSTS PER FTE STUDENT BETWEEN KENTUCKY'S PUBLIC AND INDEPENDENT INSTITUTIONS
1995-96 a/

Kentucky Institutions	Total Costs per FTE Student [b]
Public Regional	
Institution A	$6,800
Institution B	6,707
Institution C	8,218
Institution D	6,114
Institution E	6,872
Average	$6,942
Independent	
Institution A	$7,323
Institution B	11,082
Institution C	8,789
Institution D	8,044
Institution E	15,221
Institution F	15,293
Institution G	8,706
Institution H	13,168
Institution I	6,833
Institution J	10,207
Institution K	9,761
Institution L	5,814
Institution M	8,770
Institution N	6,816
Institution O	5,880
Institution P	10,564
Institution Q	8,529
Institution R	8,081
Average	$9,382

a/ 1995-96 data utilized due to unavailability of later IPEDS data for independent institutions.

b/ Total costs represent Educational and General (E & G) expenditures less Scholarships & Fellowships and Transfers.

Source: 1995-96 IPEDS Finance and Fall Enrollment.

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8.2 Total Costs per FTE Student

The additional overhead costs in the state's independent institutions, of course, drives up total annual costs per FTE student. As shown in Exhibit 7-3, the total annual costs per FTE student in Kentucky's independent institutions varied from about $6,000 to over $15,000 in 1995-96 with an average of $9,382 compared to a range of $6,000 to $8,000, with an average of $6,942, at the state's comprehensive public universities. Thus, the total cost per FTE student at Kentucky's independent institutions was about $2,500 more than at the state's comprehensive public universities in 1995-96, the last year for which comparable data are available.

8.3 Costs per Degree

Sufficient data are not available to determine the exact costs per degree because of the differences among programs at the different institutions. However, insight into the issue can be obtained by some gross calculations. Data from the institutions presented earlier in Exhibit 7-1 suggest that, on the average, it takes about 5.7 FTE student years to produce a bachelor's degree at the public institutions and only about 5.0 FTE student years at the independent institutions. Using these "ball park" estimates, the average costs per degree at the state's independent institutions are about $47,400 compared to $41,662 at the state's comprehensive universities. Thus, the higher effectiveness of the state's independent institutions in preventing dropouts and producing degrees reduces the differential costs between the independent and public institutions to about $6,000 more at the independent institutions (based on 1995-96 cost levels).

8.4 *Average Direct Costs*

As shown in Exhibit 7-4, the average annual direct operating costs per FTE student is approximately the same in both Kentucky's comprehensive public universities and independent institutions. However, when the higher student retention rates of the independent institutions are considered, the direct cost per degree was only about $18,190 at the independent institutions in 1995-96, compared to $21,978 at public comprehensive universities. If the independent institutions can reduce their per unit overhead costs, they can bring their total per unit costs in line with or even lower than the per unit costs at the state's comprehensive public universities.

EXHIBIT 8-4
COMPARISON OF DIRECT COSTS PER FTE STUDENT BETWEEN KENTUCKY'S PUBLIC AND INDEPENDENT INSTITUTIONS 1995-96 a/

Kentucky Institutions	Direct Costs per FTE Student[b]
Public Regional	
Institution A	$3,743
Institution B	3,501
Institution C	4,435
Institution D	2,921
Institution E	3,713
Average	$3,663
Independent	
Institution A	$3,736
Institution B	5,344
Institution C	3,037
Institution D	3,129
Institution E	5,362
Institution F	6,059
Institution G	3,431
Institution H	3,947
Institution I	2,049
Institution J	4,412
Institution K	4,069
Institution L	2,420
Institution M	3,853
Institution N	2,119
Institution O	1,831
Institution P	4,368
Institution Q	3,146
Institution R	3,163
Average	$3,638

a/ 1995-96 data utilized due to unavailability of later IPEDS data for independent institutions.

b/ Direct costs represent the sum of Instruction, Research, and Public Service expenditures.

Source: 1995-96 IPEDS Finance and Fall Enrollment.

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8.5 Methods for Reducing Costs at Independent Institutions

To remain competitive and in a position to partner with the state, Kentucky's independent institutions must find ways to reduce their per unit costs. While some cost reductions might be achieved in direct educational costs, such opportunities are limited without reducing the quality and uniqueness of the academic programs. However, major opportunities do exist to reduce the average overhead costs per student, which are about 75 percent greater in the independent institutions than similar costs in the state's larger comprehensive universities.

Reducing overhead costs below current levels is not any easy task. **Most institutions have already trimmed their costs as much as possible within current structures. Additional reductions will require "thinking outside of the box" and even considering options previously rejected by some institutional officials.** Reducing high per unit overhead costs will require finding ways to increase the economies of scale. Three obvious ways to increase economies of scale are:

- increase the size of the institutions;
- outsource services; and
- develop collaborative approaches.

8.5.1 Increasing Size of Institutions

Several ways exist to increase the size of Kentucky's independent institutions, including:

- contracting with the state to produce more degrees, thereby helping the state to reach its higher education degree production goals. Since the direct cost per FTE student is only about $5,000 per year (allowing for inflation since 1995-96) and students pay part of that cost, Kentucky's independent institutions could contract with the state for about $3,500 per FTE student above current enrollment levels, compared to approximately $5,800 (again, allowing for inflation since 1995-96) that the state is paying at the comprehensive public universities. The $3,500 (plus student tuition and fees) would fully cover all direct costs and provide a small contribution toward

institutional overhead, which should not increase very much if any, for increased enrollments.

- merging with one or more independent institutions. A merged institution could significantly reduce per student administrative costs even where operations at all sites are continued uninterrupted.

- contracting with other entities to provide higher education instructional services. Such entities might include private companies, military, government programs (e.g., welfare to work programs), prisons, and hospitals. While some potential client groups (e.g., military) might not fit an institution's mission, others (e.g., prisons or welfare to work) might. Any expansion in enrollments would reduce the per unit overhead costs.

- contracting with other entities to provide non-degree instructional services, such as continuing education short courses, job skill training, avocation courses, etc. Potential clients could include schools, professional associations, private businesses, and economic development organizations. Again, any increases in revenues would help reduce per unit overhead costs, since proportionate increases in overhead costs are not required for additional volume.

- forming partnership arrangements with other institutions to include joint academic programs, providing unique programs at other campuses, and sharing faculty among institutions in close proximity.

8.5.2 Outsourcing Overhead Services

Outsourcing services is another way of gaining economies of scale. An outsourcing vendor serves many clients and, therefore, can often provide the service at a much lower per unit cost than any single client, especially a smaller client, can achieve on their own. For example, a vendor that provides payroll services may process payroll for thousands of employees, while a single college may have only a few hundred employees.

Outsourcing is not new to colleges and universities nationally or in Kentucky. Although reluctant at first, colleges and universities now readily outsource bookstore and food service operations while more and more institutions now outsource housekeeping,

grounds, facilities maintenance operations, and computer or other administrative services.

Potential outsourcing opportunities for Kentucky's independent colleges and universities include:

- food service;
- bookstore;
- housekeeping;
- administration of finances (payroll, accounts receivable, accounts payable, record keeping, reporting, banking, etc.;
- human resources management;
- purchase administration (including joining purchasing pools to get volume discounts);
- administration of student records;
- mail services;
- student housing;
- campus delivery services;
- facilities maintenance;
- equipment maintenance;
- library/media services; and
- administration of student financial aid and scholarships.

8.5.3 Develop Collaborative Approaches

Forming partnership arrangements with other institutions to provide a range of support services is an effective way to reduce overhead costs. By joining together, small institutions can leverage their size to obtain more favorable purchasing contracts and service agreements. AIKCU and other associations provide a natural venue to pursue

these types of opportunities. Successful examples of the collaborative approach in Kentucky include:

- the AIKCU Insurance Consortium, a 20 year-old initiative of member colleges to jointly purchase liability, workers compensation and other types of insurance;
- the Kentucky Virtual Library, which allows member colleges to leverage their buying power in the purchase of information databases and library services;
- Spotlight on Employment, a multi-college career fair for college seniors. The event, which is in its sixteenth year, gives students and potential employers the opportunity to meet in a one-day, one-stop format. It's particularly useful for those institutions located in rural areas and whose students don't have ready access to employers.

8.6 Not Every Institution Needs to Reduce Overhead Cost

We want to clearly state that we recognize that not every independent institution in Kentucky may need to reduce overhead costs. Some institutions already operate with relatively low overhead costs, and others have sufficient income from endowments to cover their higher per student overhead costs. Still others may feel that their unique missions require that they continue current operations without change. These are individual decisions for each institution.

However, most of Kentucky's independent institutions are dependent upon tuition and fee revenues and private gifts to survive. This survival (especially during the next major economic recession) will depend upon their ability to operate in a highly competitive market where larger, highly subsidized public institutions are aggressively pursuing both their student and their donor markets. In this environment, lower overhead costs can be the difference between thriving and not surviving.

8.7 Solution is Unique for Each Institution

The choice of how much to reduce overhead costs and the most appropriate methods to do so will depend upon each institution's unique situation. No single method is appropriate for all institutions, nor is the sequence in which actions need to be taken the same for all institutions. Each institution must access its own situation, choose its own methods, and develop its own sequenced plan.

8.8 Perceived Loss of Independence is Overstated

A loss of independence should not be a major concern in outsourcing other services. Any time an institution serves a constituent, regardless of whether that constituent is a student, a student's family, a donor, a government program or contract, or any other provider of revenues, some obligations and restrictions on operations are formed. Such limits on operational flexibility are a normal and inescapable part of operating. Donors frequently place restrictions on the use of donated funds, and institutions accept those restrictions when they accept the donation. Thus, a loss of independence should not be a concern in contracting with others to provide educational services. Where individual restrictions are too severe, the institution can refuse the contract.

Institutions already outsource a host of services, including utilities, fuel for their vehicles, manufacturing and delivery of supplies, building construction, elevator inspections, etc. In few, if any, of these cases is a loss of independence a major concern. Proper contractual terms can ensure that institutional needs are fully met.

Because all revenue sources and acquisitions of products and services carry with them restrictions, the question may ultimately evolve to, "How much of our independence are we willing to trade for the resources to better serve students or serve

more students?" An institution with no restrictions probably has no money and no students.

8.9 Actions Taken by Other Independent Institutions to Reduce Costs

Unfortunately, information about the internal actions of institutions to reduce costs are not often broadly publicized. However some highly successful examples of what can be done do exist:

- To enhance quality while remaining affordable, Bucknell University (Lewisburg, Pennsylvania) limited growth on non-strategic, non-personnel budgets to 2 percent each year. Additionally, the institution will reduce its projected budget expenditures by approximately $1.7 million over five years by reducing other budget areas beyond the aforementioned 2 percent and by reducing administrative and support staff through attrition.[1]

- In 1995, Oberlin College (Oberlin, Ohio) created a restructuring program to cut $3 million from its annual budget. The related changes included elimination of positions through attrition, consolidation of offices, and cutting departmental budgets.[2]

- Ohio Dominican College (Columbus, Ohio) consolidated several offices to create a student services center that combines the registrar, financial aid, and accounts receivable under one roof. That change has resulted in decreased customer waiting time and an anticipated long-term cost savings through serving more students with the same number of staff members.[3]

- A business process reengineering study in another Ohio independent college revealed a financial aid process that was lengthy and unfriendly to customers. By redesigning the procedures, the institution was able to save several hundred thousand dollars and increase enrollments by retaining students who otherwise might have otherwise become frustrated and gone elsewhere.[4]

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[1] Ibid.
[2] Ibid.
[3] Strosnider, K. (1998, May 29). Private colleges in Ohio are collaborating to cut costs. *The Chronicle of Higher Education*, p. A41.
[4] Ibid.

Structural actions to reduce operating costs are underway at Kentucky's independent colleges and universities. Through initiatives such as Business Process Redesign, supported by Ashland Inc. Foundation, independent colleges in Kentucky are streamlining common business practices such as financial aid, auxiliary services, and student affairs. Other institutions are developing "One Stop Shops" to provide a range of student services in a convenient, lower-cost manner and are reviewing and streamlining administrative areas to reduce overhead costs. Clearly, these types of cost-containment efforts are critical and should be enhanced wherever possible.

One of the ways that independent institutions can attain economies of scale is to join with other independent institutions in the acquisition and provision of products and services. Although other alliances may be formed, the most easily established alliances are those that are formed through the state association, provided that adequate association leadership and institutional support exists. Examples of actions taken by the independent associations in others states will be addressed in chapter 9.

8.10 Effectiveness

Effectiveness for higher education institutions is a relative term describing the appropriateness of an institution's goals and how well those goals are being achieved. Each of Kentucky's independent institutions has explicit (and sometimes implicit) goals related to the types of students served, the types of educational experiences taught, the types of student life activities provided, and the quality of the academic programs provided.

8.10.1 Institutional Goals Coincide with State Goals

For the most part, the educational goals of Kentucky's independent institutions fully coincide with the goals of the state, which are, in broad terms, to provide a quality

higher education to the state's citizens with special attention to graduating students and reaching those in the state's traditionally underserved areas.

8.10.2 Program Quality

In all of our interviews with state and institutional officials, we heard only accolades for the quality of the education provided by Kentucky's independent institutions. Everyone seemed to agree that the small classes, individual attention, sense of belonging, values taught, and other attributes of a personalized institutional environment produced a quality education for those students enrolled in the state's independent institutions.

8.10.3 Serving Students from Underserved Populations

Not as widely known is that Kentucky's independent institutions are highly effective in serving traditionally underserved populations. Contrary to the conventional belief that independent colleges educate only the elite, Kentucky's independent institutions enroll and graduate a large number of students from the lowest income populations. Over seventy-five percent of the students in the state's independent institutions are eligible for financial aid and thirty-six percent of independent college students in the state receive Pell Grants, federal funding reserved for students from low-income families.

8.10.4 Serving Students from Traditionally Underserved Geographical Areas

Also not as well known is the fact that Kentucky's independent institutions serve significant populations from traditionally underserved geographical areas in the state. As described in the previous chapter, 15 of the state's 19 independent colleges and universities are either located in or adjacent to a Kentucky county classified as an underserved county. In fact, Kentucky's independent institutions serve as high as 59

percent of the undergraduate enrollments in some underserved counties. More important, many of the institutions are strategically located to vastly improve services to students in these traditionally underserved counties if the state would assist in removing more of the financial barriers that exist for many of the students.

8.10.5 Retaining Students and Producing Graduates

Perhaps the area where Kentucky's independent institutions are most effective is in retaining and graduating students. As indicated earlier in this report, Kentucky's independent institutions enroll 20 percent of the state's four-year students but produce about 22 percent of the baccalaureate degrees each year. The retention effectiveness of the state's independent institutions was vividly demonstrated earlier in Exhibit 7-1, which shows that the state's independent institutions, on the average, produce one baccalaureate degree for each 5.0 FTE student years, while the state's comprehensive public universities must produce 5.7 FTE student years to produce a degree.

8.10.6 Breadth of Degrees

The one area where Kentucky's independent institutions are less effective than their public sector counterparts is in the breadth of degrees offered. As shown in Appendix F, the state's independent institutions offer primarily liberal arts and educational degrees. While strong arguments can be made that the most effective undergraduate program is a quality liberal arts degree, many students prefer degrees in more specialized fields such as accounting, engineering, architecture, computers, journalism, etc.

During our interviews, some of the institutional officials expressed reluctance at expanding into more specialized degrees. The fear is that, if a program is successful, one of the state institutions would move into the local area offering the same program at

subsidized tuition and fee levels, thus making their program a financial liability. Even where public institutions do not duplicate academic programs already offered in a market by the independent institutions, their establishment of branch campuses or centers in the same market draws away potential students from the independent institution and often results in neither institution being able to build the critical mass required to support a broader array of academic programs.

The lack of breadth of degree programs at many of the state's independent institutions could be significantly improved if the state would develop partnerships with independent institutions in selected markets to provide the needed additional academic programs rather than building a new center or branch campus of a public institution. By concentrating programs in a local market at a single institution, the critical mass of students could be achieved to successfully provide the additional programs at reasonable costs. Additionally, independent institutions can substantially expand their academic offerings by partnering, via technology, with other institutions. The Kentucky Virtual University and other established on-line entities offer additional opportunities to expand the curriculum and broaden the geographic access to academic programs.

8.10.7 Student Access Versus Program Duplication

A major issue confronting state higher education decision makers is the issue of program duplication versus student access. Several decades ago, strong actions were taken by state legislatures and higher education officials to reduce program duplication. However, since the mid-1980's when state policy makers came to realize that education was a major requirement for economic growth, the call for the elimination of duplicated programs has been replaced by the call for student access. The policy of preventing program duplication is now limited primarily to low demand, high cost programs such as medicine and engineering.

Kentucky cannot meet the higher education needs of its people without significant geographical access to the full range of high demand programs in each part of the state. Kentucky's state higher education officials must fully address the issue of program accessibility and how to achieve the critical mass in each market area to offer a reasonably broad array of academic programs without creating excessive competition or inefficiencies within educational markets. Continuing to split the market into smaller slices by moving public programs into markets already served by independent institutions only makes the problem worse, preventing all institutions from achieving the necessary critical mass.

9.0 THE ROLE OF THE ASSOCIATION IN CREATING A MORE EFFECTIVE, EFFICIENT, AND COMPETITIVE INDEPENDENT SECTOR

9.0 THE ROLE OF THE ASSOCIATION IN CREATING A MORE EFFECTIVE, EFFICIENT, AND COMPETITIVE INDEPENDENT SECTOR

As a result of the pervasive changes that are taking place in the postsecondary environment in Kentucky, AIKCU is undergoing an evaluation of its role in serving the 19 member institutions. In the past, AIKCU has had a prominent fundraising role in addition to its long-standing public policy role. However, the relevancy of fundraising and other historical activities of the Association are being questioned as public policy issues and the need for more institutional cooperative activities have taken center stage in more recent years. Additionally, changes in staffing and structure over the past few years have allowed for discussion of reorganization and realignment of goals.

During the interviews with AIKCU presidents, state policymakers, and AIKCU board members, a number of issues related to the role of the Association emerged. Although there is strong support for the Association and respect for its leadership, many indicated the need to shift its historical priorities and activities.

9.1 Role of the Association

AIKCU presidents, board members, and policy makers alike commented that the Association has "the right people in the right place." Several interviewees acknowledged that the relocation of the AIKCU headquarters to Frankfort was in the best interest of all parties. Additionally, the interviewees were in widespread agreement that the Association staff was well qualified and well placed to be effective. With this strong foundation in place, the college and university presidents were interested in seeing the following emphases for the Association.

9.1.1 State Policy

The interviewees clearly articulated that the number one issue for the Association should be a focus on public policy issues, especially since this is a period of tremendous change for postsecondary education in Kentucky. AIKCU has a pivotal role as the collective voice of the 19 member institutions. This is particularly important in an environment where few formal means of independent sector participation or communication in the decision making process related to postsecondary education currently exists. Policymakers, in particular, pointed out that the collective size of the independent sector has more bargaining power than any one institution alone. Rather than simply responding to issues, the Association must take a proactive stance in communicating with the CPE, Governor's Office, Legislature, and other state entities about the strengths of the independent sector and the many contributions the member institutions make to the state. Association members must put together a strong agenda and then work as a team to promote this agenda.

The presidents expect to be kept informed of all relevant postsecondary issues and to be alerted to important developments through AIKCU staff. The presidents also look to the staff for recommendations and advice on institutional and organizational action. However, the new environment for postsecondary education requires a new role for the independent college and university presidents as well. Individually and as a group, they must develop a state policy network that is supportive of their causes and goals. AIKCU policy issues and governmental relations activities must be adopted as a high priority among all member institutions. Repeatedly, state policymakers asserted the need for the presidents to communicate with their local legislators and voice their opinions on a wide variety of educational issues affecting their students, their institutions and the state.

9.1.2 Collective Marketing

While the Association's marketing activities have increased over the last several years, those who were interviewed highlighted the need to increase the visibility of independent higher education in Kentucky. This expressed need is supported by a previous marketing study for the Association as conducted by Horizon Research International.[1] This report indicated that "the independent colleges do not enjoy significant unprompted awareness among the general public" (p. i). Furthermore, the issue of cost was perceived as a "significant perceptual barrier that impacted the general public's preferences and perceptions regarding independent colleges and universities" (p. i).

An earlier study of corporate representatives,[2] also conducted by Horizon Research International, revealed that executives generally did not understand the differences between public and independent colleges and universities. Several presidents and board members indicated the role of the Association should be to "tell the stories" of the independent institutions and their students. According to the previous market study of corporate representatives, AIKCU needs "to develop a more compelling, meaningful, and perhaps emotional marketing strategy and story" (p. xii).

The AIKCU presidents and board members suggested addressing the following issues through collective marketing efforts:

- Student Recruitment – One role of AIKCU is to get the word out about institutions, especially to prospective students. In general, this requires making students and parents aware of the quality educational environments at independent colleges and universities, increasing awareness of the availability of student financial aid

[1] *A Statewide Survey of Adult Kentuckians Regarding the Awareness of, Preferences Toward, and Perceptions Regarding Independent Colleges and Universities*, April 2000.
[2] *Qualitative Perceptions of the Kentucky Independent College Foundation – Corporate Donor Executives*, October 1998.

sources, and dispelling some of the myths and misinformation about independent colleges and universities.

- Corporate partnerships and sponsorships – The Association must focus on increasing awareness of independent colleges and universities among business and industry leaders. However, they must also increase the two-way communication through innovative partnerships that allow faculty and students to learn more about specific careers as well as the general skills required for today's workplace.

- Faculty Research and Scholarship – Some of the presidents felt that the Association could launch a grass roots public relations campaign by sponsoring a series of "town meetings" across the state in which independent college and university faculty present topics of interest to local citizens. Modeled after the world-renowned Chautauqua Institution, this effort would serve to showcase independent sector talent while bringing recognition to the institutions.

9.1.3 Fundraising

Although fundraising has been a central responsibility of the Association in the past, this has been on the decline. Many of the AIKCU presidents and board members indicated the current fundraising approach is not working well in the new environment, described in greater detail in Chapter 6. Although support exists for continuation of the Named Scholars Program, the presidents are less inclined to believe that putting greater effort into collective fundraising will reap greater benefits for the institutions. Additionally, some feel that these collective efforts are actually counterproductive to institutional fundraising efforts. However, there is some interest in raising funds to support new services or collective activities that produce enough overhead to be self-supporting.

Some of the AIKCU presidents would like to see the Association get out of the business of fundraising, while others want to keep getting the revenues that, in essence, pay for their membership in the Association. At the same time, the AIKCU business trustees would like stronger staff support for fundraising activities and clarification of their role and responsibilities.

9.1.4 Cooperative Activities

Historically, the Association has assisted member institutions in reducing costs by taking a leadership role in facilitating cooperative activities. These efforts have been increased in recent years as opportunities have arisen and technology has evolved to facilitate additional programs. Since many of the AIKCU institutions have small enrollments and limited staffing, there is often little time to explore innovative partnerships for reduction of costs. The Association, especially through its foundation, can do this. AIKCU staff members are in the position to bring interested parties together and to amass the necessary resources in one place for facilitating cooperative activities. While institutions should drive the process from a policy perspective, AIKCU staff can make proposals to members and carry out efforts. This includes joint efforts related to student recruitment, purchasing, distance learning, and other similar partnerships. Additionally, opportunities exist to reduce costs for the institutions by implementing insurance programs or other types of cooperative services. These will be explored in more detail later in this chapter.

Several of the AIKCU presidents were interested in seeing the Association take a leadership role in seeking out these kinds of arrangements as a service to the institutions. A few stressed the importance of making such cooperative activities optional, especially since many of the institutions are involved in other consortia with similar objectives. In contrast, several other AIKCU presidents were greatly concerned that, especially with limited staff resources, the emphasis on collaborative activities would detract from the higher priority of public policy issues.

9.1.5 Organizational Development

Several of the institution presidents indicated that the AIKCU staff could play a more significant role in facilitating interaction, relationships, planning, and partnerships

among the independent colleges and universities by providing additional interaction for the presidents and promoting organizational development activities. Obviously, the presidents must have knowledge of the other independent institutions in the state in order to serve as an effective advocate of the Association and independent higher education as a whole. Additionally, the development of a state policy agenda for independent institutions and the initiation of collective activities among the institutions require a foundation of familiarity and trust among the presidents. The presidents expressed interest in annual retreats and regular meetings to promote such organizational development and planning.

9.2 Associations in Other States

The survey of the independent college and university associations in 18 states included questions related to the overall role and scope of activities that are currently being conducted by these organizations. The methodology for the survey was outlined in Chapter 1, and the overall responses are summarized in Exhibit 9-1.

9.2.1 Role of the Independent Association in Other States

The primary role for the independent college and university associations in the 18 survey states is representing member institutions in the state higher education policy process. All 18 (100 percent) of the respondents indicated that this is a high priority for their respective organizations. The associations also focus on representing independent institutions in the national higher education process, but not to the same degree as the state level. Forty-seven percent place medium priority on national policy, while 41 percent place high priority on this activity.

Fundraising is a common activity for the state associations. Approximately half (47 percent) of the associations place a high priority on raising funds for dissemination to

individual independent institutions. In some cases, separate nonprofit organizations fulfill this responsibility. Almost one-third (29 percent) of the associations place high priority on raising funds for collective activities of independent institutions.

Nearly all of the associations place a priority on collection and dissemination of statistics or conducting research related to independent higher education. Almost three-fourths (71 percent) of the associations place high priority on this activity, while 24 percent place medium priority on it.

EXHIBIT 9-1
PRIORITY LEVEL OF ASSOCIATIONS IN SAMPLE STATES

Association Activities	Priority Level			
	High	Medium	Low	None
Representing independent institutions in the state higher education policy process.	100%	0%	0%	0%
Representing independent institutions in the national higher education policy process.	41%	47%	12%	0%
Raising funds for dissemination to individual independent higher education institutions.	47%	6%	6%	41%
Raising funds for collective activities of independent institutions.	29%	12%	12%	47%
Establishing corporate relationships for independent institutions.	35%	18%	29%	18%
Coordinating a collective public relations and marketing effort for independent colleges.	41%	41%	12%	6%
Facilitating cooperative programs among some or all of the independent institutions.	29%	35%	29%	6%
Identifying cooperative activities to improve productivity or reduce costs.	35%	35%	18%	12%
Bringing administrators or faculty together with independent sector peers for professional development and networking.	29%	35%	24%	12%
Collecting and disseminating statistics or conducting research related to independent higher education.	71%	24%	6%	0%

Source: MGT survey of the independent college and university associations in 18 states.

Marketing and public relations is also a significant activity for the associations in the sample. Over three-fourths (82 percent) place a high or medium priority on coordinating a collective public relations and marketing effort for independent colleges. Half (53 percent) place a high or medium priority on establishing corporate relationships for independent institutions.

A number of the associations are engaging in cooperative activities to improve productivity or reduce costs (e.g., insurance purchasing). More than one-third (35 percent) identify this as a high priority, and 35 percent identify it as a medium priority. The associations were more likely to rate other kinds of cooperative programs (e.g., guidance counselor tours) as a medium priority (35 percent), although 29 percent place high importance on it.

Some associations are involved in bringing administrators and faculty together with their peers for professional development and networking opportunities; however, this is generally a lower priority than other association activities. While 35 percent place medium importance on this activity, 29 percent place high importance and 24 percent place low importance on it.

9.2.2 *Actions Taken by State Associations to Assist Their Member Institutions in Reducing Costs*

As discussed in previous chapters, one of the ways that independent institutions can attain economies of scale is to join with other independent institutions in the acquisition and provision of products and services. Although other alliances may be formed, the most easily established alliances are those that are formed through the state association, provided that adequate association leadership and institutional support exist. Among the survey states, the following cost reduction activities are taking place:

- Consolidation of Back Office Operations – In October of 2000, the presidents of the 21 members of the Wisconsin Association of Independent Colleges and Universities voted unanimously to consolidate 10 important functions that all of its institutions performed individually. The functions were as follows: purchasing, information technology, federal financial aid, travel management, environmental health and safety, training, legal counsel, a private-label loan program, collections, and research. Although the Wisconsin association would administer these functions, the 21 member institutions would be the final arbiters of policy. Since this plan was implemented, the association has learned that significant financial savings can be achieved with improved performance and quality enhancement.

- Bond Facilities Program – In a partnership with PNC Capital Markets, the Pennsylvania association meets the needs of small and mid-sized borrowings of member colleges by pooling them into large, tax-exempt variable rate bond issues. AIKCU has coordinated similar bond programs in the past for its members.

- Fundraising – Like AIKCU, 10 associations conduct some form of joint fundraising. In two of the associations that do not participate in fundraising ventures, revenue still comes into the organization through another closely related organization that was created by the association to be a fundraising arm.

- Insurance – Like AIKCU, associations in the states of Florida, Minnesota, Pennsylvania, South Carolina, and Wisconsin offer insurance to the institutions' employees and/or students at a reduced institutional cost. The types of insurance offered in the various states include student health insurance, general liability, property, and disability.

- Office Supplies – Like AIKCU, the Minnesota and South Carolina associations participate in a purchasing program for office supplies. Minnesota is in a cooperative that purchases office supplies from various vendors. Four of South Carolina's institutions have formed a partnership with Corporate Express for office supplies. Corporate Express supplies these institutions with office products in a cost-effective way via the Internet.

- Computer Purchasing and/or Software Purchasing – Florida and Tennessee have partnerships with Dell Computing for their products. Wisconsin offers participating institutions discounted subscriptions on career-planning software. Minnesota purchases Microsoft products for 20 to 30 percent below educational discounts.

- Library Purchasing and Shared Resources – Kentucky has a longstanding relationship among its public and independent institution libraries for joint purchasing, database development, and electronic resources. Similarly, three of the survey states take part

in some form of library purchasing. The 36 participating institutions in North Carolina get a discount when their librarians endorse book vendors. In South Carolina, 19 institutions are taking part in a library automation initiative to enhance and increase collections at their respective colleges. By teaming with public and private libraries, the participating independent colleges and universities have increased their collections through the use of the Internet. The Wisconsin association has saved its membership money by working with Wisconsin's Interlibrary Loan Service to give its students access to new resources, such as: Britannica Online, Expanded Academic, General Business File, Books in Print, PsycInfo, and Lexis-Nexis Academic Universe.

9.2.3 ***Actions Taken by State Associations to Generate Revenue to Support Member Services***

Several of the independent college and university associations in the sample have established collective activities that generate revenue. Some examples include:

- Worker's Compensation – The Michigan association established the Worker's Compensation Self-Insurance Program and administers it out of their office. This program pays back dividends or refunds equal to or exceeding premiums due to investment of the earnings. There is an estimated $1.5 million combined savings to the institutions. They earn about $1.3 million or more a year in dividends or refunds. Additionally, the related safety programs that have been put in place to reduce claims expenses have enhanced the program success. The Michigan association is now looking to establish similar programs for property and liability insurance.

- Electricity – Pennsylvania's independent college and university association is now purchasing electricity along with 47 of its 81 member institutions. This group-purchasing venture has been in place since 1998. The project netted a profit of $11,278 for the association.

- Long Distance Service – Over half of the state associations interviewed (9) had a group long-distance agreement to save money for their member institutions. Some of the associations generate revenues from these kinds of arrangements. Pennsylvania, for example, generated nearly $78,000 in income from this partnership.

9.2.4 *Other Collective Activities Initiated by State Associations*

Several of the independent college and university associations in the sample have established other collective activities that enhance the competitive position of the member institutions. Some examples include:

- Online Electronic Applications and Payment Options – In Wisconsin, twenty institutions have joined together to form a partnership that provides online applications and online payment options to their students.

- Campus Tours for Guidance Counselors – The associations in Minnesota, Tennessee, and Virginia each sponsor an annual tour of member campuses to inform guidance counselors, or others who help in the college application and selection process, about opportunities at independent colleges and universities.

- Student Recruitment – The associations in Minnesota, Virginia, and Wisconsin each sponsor a "Private College Week" featuring campus tours and information sessions on application and financial aid processes. Visitors receive a passport that is validated at each campus, qualifying them to waive the application fee at one or more member institutions.

- Marketing – The Wisconsin association has launched an aggressive "image advertising" campaign, including television commercials to inform the public about the value of independent colleges and universities.

- Collaborative Grant Applications – The Minnesota association received $312,904 through the National Science Foundation to connect 16 colleges to the Internet.

State association roles are changing. An emphasis on public policy is universal, but other responsibilities differ in importance by state. There is a trend nationally to de-emphasize traditional collective fundraising and move to various business practice collaboratives and cost saving methods. Increasingly, state associations are exploring revenue-generating activities in order to carry out association responsibilities and provide a high level of member services.

10.0 RECOMMENDATIONS

10.0 RECOMMENDATIONS

Kentucky's independent colleges and universities are highly cost-effective partners in attaining the state's laudable and aggressive postsecondary education goals. However, this partnership is limited in ways that are not in the best interests of either the Commonwealth or the independent institutions.

Statistics from other states show that states can both reduce annual costs to the taxpayer per postsecondary degree granted and increase the rate of graduation by "outsourcing" more of the postsecondary education services to independent institutions. Kentucky's independent institutions:

- have a significantly higher graduation rate than comparable state public institutions;
- can produce postsecondary education degrees in a wide range of disciplines at significantly lower costs to the state than the state's comprehensive universities;
- are located throughout the state, thereby significantly expanding the geographical access of postsecondary education in the state;
- are located either in or adjacent to many geographically underserved areas of the state;
- have significant experience in successfully serving underserved students;
- already have programs, facilities and support structures in place to produce the types of graduates the state is seeking, including critical shortage areas, such as teachers and nurses; and
- are major contributors to the economies and cultural enhancement of the communities in which they are located.

In spite of the state's need for postsecondary education programs and geographic accessibility, as well as its need to carefully watch the expenditures of taxpayer dollars, a significant mismatch exists between the state's needs and the use of its independent institutions. Historically, the relationship has involved limited state financial support for

independent college students. This is an important, mutually positive relationship and should be expanded. However, many other positive opportunities exist that also should be pursued.

Moving from significant but limited financial aid relationships to other effective state-independent sector relationships is critically important for both parties. The state has established ambitious postsecondary goals that must be achieved during the early years of this century if accelerated economic growth is to occur. To this end, the Governor and the Legislature have restructured public postsecondary education and made it the state's highest funding priority.

Independent institutions are making meaningful contributions to the education of citizens and to the well being of states across the nation. However, these same institutions are facing many new challenges, making their continued success increasingly difficult. Many states and independent institutions are recognizing the advantages of partnering in new ways to meet state needs that, in turn, strengthen the viability of independent institutions.

It also is necessary for independent institutions to take steps to maintain fiscal viability in this rapidly evolving world. Traditional funding sources are shifting as public colleges and universities move aggressively into the private fundraising arena. Increased competition for students by highly subsidized, low-tuition public institutions is another growing challenge. Independent institutions across the nation, individually and collectively, are taking innovative steps to contain costs and improve educational services in response to this changing environment.

In Kentucky, independent colleges and universities are educating students in an especially difficult operating environment. The national fiscal realities are exacerbated by significant increases in state funding to public institutions coupled with heightened

expectations of these institutions. The unintended consequences of this situation require that many of the state's independent institutions move more aggressively to control costs while offering expanded support for the state's efforts to achieve important postsecondary goals.

Already a few of the state's independent institutions face uncertain financial futures, and others are likely to join them when the economy tightens, if the state-independent sector partnership remains limited, and if campus cost-saving measures are not enhanced. Without these improvements, independent institutions could be lost and postsecondary access in the state further limited.

This chapter provides a set of recommendations that will enable the state to take full advantage of the significant resources and advantages offered by its independent institutions. In so doing, the state will improve substantially its ability to meet its postsecondary education goals in a cost-effective manner. Recommendations also are offered to the independent college and university community, including strategies to improve their fiscal viability. Adopting this set of recommendations will provide a more stable environment and enhanced opportunities important to the ability of independent institutions to flourish and to improve their service to the people of Kentucky.

The recommendations are directed at all parties: the Strategic Committee on Postsecondary Education (SCOPE), the Council on Postsecondary Education (CPE), the Kentucky Higher Education Assistance Authority (KHEAA), the Governor's Office, the Legislature, the independent institutions, and the Association of Independent Kentucky Colleges and Universities (AIKCU). Further, the recommendations are intended as a package. Just as an automobile requires tires, a steering wheel, a motor, and other parts to operate properly, Kentucky needs all components of its postsecondary education system to function successfully!

10.1 Recommendations to State Policy Makers and Organizations

As indicated throughout this report and summarized in the introduction to this chapter, Kentucky's independent institutions of postsecondary education are a valuable resource to the state and offer a highly cost-effective way to help the state accomplish its laudable postsecondary education goals. The state, its taxpayers, and its future students can all realize significant advantages by incorporating the Commonwealth's independent institutions as full partners, not as substitutes for, but as complements to the state's public institutions.

Initial steps have been taken by the CPE, SCOPE, and other state bodies during the last 12 months to include the state's independent institutions in the evaluation and development of state postsecondary education policies and programs. For example, AIKCU and campus representatives have testified before the SCOPE committee, CPE has named a staff liaison to work with AIKCU, joint meetings of the chief academic officers of public and independent institutions have been held, representatives from AIKCU have served on several CPE committees and recent proposed legislation on teacher education quality trust funds included the independent institutions. Additionally, the Governor and the Legislature have been supportive of increased financial aid for students attending public and independent institutions, including increased funding of need-based programs and creation of a merit-based program. All of these steps indicate a strong desire on the part of public officials to more fully utilize the resources of the independent institutions where it is cost-effective to do so.

However, Kentucky's state postsecondary education policy and decision-making processes are still heavily oriented towards its public institutions with the result that:

- officials from the independent higher education community are only marginally included in the formation of state higher education policy.

- extensive plans, programs, and state funding streams have been created to purchase postsecondary education services from public institutions, while only minor plans, programs, and state funding streams have been created to purchase services from independent institutions.

- innovative state funding approaches to enhance quality or to achieve postsecondary education goals have not adequately included independent colleges and universities.

- innovative state funding approaches have not adequately promoted collaboration between public and independent institutions.

Appropriate changes to bring the Commonwealth's independent institutions more fully into the "state's postsecondary education fold" will be a win-win-win for the state's economy, the state's taxpayers, and the state's students. To this end, the following set of recommendations will enable the state to build upon initial efforts to use its postsecondary education purchasing dollars more effectively and efficiently to serve the people of the Commonwealth by further including the state's independent institutions.

Recommendation 10-1-1: The state's policy and political leadership should expand its recognition and inclusion of the independent college and university community. SCOPE, representing the state's elected and appointed policy leadership, should provide leadership in:

- including independent college community representatives in all deliberations, since virtually all policy decisions impact independent institutions directly or indirectly;

- hearing from representatives of independent higher education in order to become more aware of the programs and services offered by the nineteen institutions and its association;

- including independent higher education representatives in important policy-making bodies established by statute, regulation, or state agency action;

- supporting legislation to add the AIKCU President as a non-voting, ex-officio member of the Kentucky Higher Education Assistance Authority; and

- aggressively supporting and enhancing access to a range of postsecondary education institutions through full utilization of the state's financial aid programs, particularly the state's need-based programs.

- creating financial incentives for public-independent sector cooperation and collaboration.

Recommendation 10-1-2: As the state's postsecondary education policy-making agency, the Council on Postsecondary Education (CPE) should expand its initial efforts to recognize independent higher education resources in order to make them a full participant in meeting the postsecondary education needs of the Commonwealth's citizens. As part of this expansion, CPE should:

- establish a policy that the locations, costs, and effectiveness of utilizing independent institutions through contracts and other partnerships will be explicitly considered when new institutions, branch campuses, off-campus centers, new academic programs and expanded academic programs are considered and that, where more cost-effective, the services of the independent institutions will be used;

- establish a formal plan for more effectively using the services of Kentucky's independent institutions where those services are equal to or more cost-effective than using the state's public institutions;

- invite a designated representative of independent higher education to participate at the same level as the presidents of the public universities in Council meetings and other Council activities;

- establish a policy that the impact of all CPE policies and programs (including funding policies and programs) on the independent institutions will be explicitly examined and considered when the policies and programs are established or altered;

- explicitly include consideration of the role of independent institutions as part of all CPE plans;

- consider inclusion in its annual budget recommendations to the Governor, specific recommendations to utilize services from independent institutions through enhanced student financial aid programs, contracts for specific services, and incentives for public-independent sector collaborations; and

- consider inclusion of independent colleges and universities in selected trust funds.

Recommendation 10-1-3: Student financial aid policy is important for postsecondary systems in all states. It is particularly important for independent higher education because it expands access to these institutions, particularly for low- and moderate-income students. Kentucky's aid programs have allowed the state to form a positive, productive relationship with its independent institutions. This relationship has been enhanced by the commitment of a stable source of revenue to support need-based aid programs and the new merit-based Kentucky Educational Excellence Scholarships (KEES). However, the potential exists to use student aid policy in additional, positive ways to address the state's goal of dramatically increasing enrollment. The Kentucky

Higher Education Assistance Authority (KHEAA) certainly responds to the needs of independent college and university students; however, more should be done. As the state's student financial aid policy-making body, KHEAA should:

- aggressively advocate for the increased use of student financial aid to help the state meet enrollment goals, expand access, maximize higher education resources (public and independent), and keep students in state;
- take steps to increase the awareness among policymakers of the importance of student financial aid to Kentuckians;
- advocate for the inclusion of independent college and university students in all financial aid programs;
- move aggressively to fund the Kentucky Tuition Grant Program (KTG), a tuition equalization and need-based aid program for Kentucky residents, at the level authorized by statute;
- develop procedures that more effectively include campus aid administrators in discussions of financial aid procedures that affect the campuses; and
- advocate for a phase-in plan to make the KTG program a true equalization grant rather than a need based grant.

10.2 Recommendations to Kentucky's Independent Colleges and Universities

In our interviews, both officials at the independent institutions and state policy makers voiced concern about the lack of aggressiveness of the independent institutions in seeking to influence the development of state postsecondary education policy. Many interviewees pointed out that Kentucky's independent institutions have historically been, and still are, too passive in the development of state postsecondary education policy. College and university officials are concerned about the state's concentration of interest and resources in its public institutions, about the negative effects that some state policies have on their institutions and about the state's lack of use of their institutional resources. However, as interviewees pointed out, independent college leaders have not done enough to correct the problems at issue. Voiced self-directed complaints include:

- institutional officials are not active enough in speaking with their local legislative delegations;
- institutional officials are not well organized and do not develop and support common public policy agendas;
- institutional officials do not consistently devote the resources to participate in statewide task forces, committees, hearings, etc.;
- institutional officials do not develop specific proposals to present to state decision makers about how their independent institution can cost-effectively provide postsecondary education services to the state; and
- institutional officials do not adequately mutually support and cooperate with each other.

It was clear in our work with institutional presidents they are in constant motion, managing their institutions, meeting with potential donors, recruiting students, working with students, meeting with parents, and performing the many other tasks associated with managing a successful institution. Their lack of attention to state postsecondary education policy does not suggest a lack of concern, but rather a lack of priority because of other issues deemed more immediate. Yet, the institutional officials must remember that state government is the largest purchaser of postsecondary education services in Kentucky—to the tune of $1.1 billion per year. Only the most well endowed institutions can afford to ignore this market force.

Recommendation 10-2-1: Kentucky independent college and university presidents should review this report and related materials and come to a consensus about how they make the necessary commitments to initiate and sustain a cooperative program to offer their services to the state, develop specific program proposals, participate in the development of state policies, and actively support joint policies. Specifically, the presidents should:

- hold a retreat, as soon as possible, to address these fundamental issues and achieve consensus;
- direct AIKCU staff to develop a long-range (5-year) policy agenda as a result of the retreat;
- review and annually adjust the policy agenda to reflect changes in the public policy environment;

- develop a specific set of strategies and policy recommendations, and assign responsibilities six months before the legislative session; and

- give immediate attention to the upcoming 2002 legislative session with emphasis on assisting the state in achieving its postsecondary education goals.

Recommendation 10-2-2: Assuming consensus is reached on Recommendation 10-2-1, Kentucky's independent colleges and universities must develop processes and procedures that support achievement of articulated policy goals. The institutions should:

- recognize that state policy affects all independent postsecondary providers, and that there is strength in numbers when addressing common issues or concerns;

- create a mechanism, through AIKCU, which enables the independent institutions to respond quickly, positively and effectively to requests by SCOPE, CPE, Governor's Office, Legislature, and other state bodies for services from the institutions;

- create the capacity within AIKCU to work with individual institutions to prepare formal proposals and to respond to requests from SCOPE, CPE, and other state bodies;

- seize upon early opportunities to prove to the CPE, Governor's Office, Legislature and other state bodies that the state's independent institutions can and will respond quickly, efficiently, and effectively to opportunities to help meet the state's postsecondary education goals;

- appoint a single high level official at each institution to serve as the point of contact, to work with AIKCU staff, to represent the institution in state level meetings, to work with local legislators, and to organize the campus community; and

- mutually support one another and the independent institutions, as a whole, in public speeches, promotional communications, and private conversations.

Recommendation 10-2-3: AIKCU should formally adopt and institutional presidents should sign a resolution that its members desire to, and are fully prepared to, work with state officials to help meet the state's postsecondary education goals.

Recommendation 10-2-4: Kentucky's independent institutions should request and host an initial summit followed by annual meetings with the Council on Postsecondary Education to discuss:

- the state's postsecondary education goals and plans for achieving those goals;

- the positive steps CPE has taken to date to include the sector in important discussions;
- ways in which the independent institutions can help meet those goals;
- the impact of existing and proposed state policies, plans and programs on the independent institutions;
- ways in which the state can more effectively utilize the independent institutions;
- ways in which public and independent institutions can collaborate;
- barriers to the state more effectively using the independent institutions and how those barriers can be overcome; and
- ways in which the CPE can better integrate independent institutions into its planning and administrative processes.

Recommendation 10-2-5: The presidents and AIKCU staff must develop procedures whereby the campus communities are fully informed about state policy matters. A key strategy in this process is the initiation of periodic state policy seminars or information sessions conducted on each campus by AIKCU staff. The presidents need to take the lead in assuring that campus decision makers and constituents have knowledge of state policy issues. This will assure that:

- AIKCU colleges and universities more fully participate in association decision-making;
- institutional officials can keep up-to-date on the activities of the Association, SCOPE, the CPE, the Legislature, and other state bodies; and
- AIKCU representatives can operate with the full knowledge that they have the support of the institutions.

Recommendation 10-2-6: The AIKCU membership should develop specific proposals for SCOPE, CPE, the Governor's Office and Legislature outlining ways its member institutions can provide postsecondary education services to the state. The proposals should:

- be based on meeting critical state postsecondary education needs and goals;
- provide the services at comparable or lower cost than the state is currently paying through its public institutions;
- provide program quality equal to or greater than current public institution programs; and

- maintain or improve quality of current postsecondary services.

Recommendation 10-2-7: Kentucky's independent institutions should accelerate their efforts to reduce overhead costs. This attention to efficiency and cost containment is necessary, not only to remain competitive, but also to ensure the viability of these independent institutions in the future. Each institution should:

- review its overhead costs;
- identify alternative ways of reducing costs and develop time schedules for reducing costs;
- each institution should continually look for and consider cost reduction options that are applicable to their unique situation;
- further, each institution should be prepared to share these efforts with state policy makers to demonstrate their ability to maintain fiscal viability to help meet the state's postsecondary education goals.

Examples include

- outsourcing administrative and support services, such as
  - food service
  - plant maintenance
  - grounds maintenance
  - house cleaning
  - technology services
  - human resource services
  - financial administrative services
  - student admissions administration
  - student records administration
  - security
  - postal services;
- conducting business process re-engineering studies of administrative and support services to reduce costs;
- joining with other institutions to share services and/or negotiate more favorable contracts;
- joining with other organizations (e.g., private companies, local government, school districts, and public colleges and universities) to share services and/or negotiate more favorable contracts;
- merging with one or more independent institutions to gain economy of scale cost savings;
- expanding into related services to increase the value to the state, to increase revenue, and to spread current overhead costs over more and larger product lines. Examples of expanded services include

  - educational contracts with businesses, school districts, and governments
  - research contracts with governments and businesses
  - distance education programs
  - non-degree avocation and vocation courses;
- partnering with other institutions to offer joint programs or share joint resources (e.g., sharing faculty among institutions); and
- contracting with the state to provide specific services such as
  - serving underserved student populations
  - providing degrees in critical fields (e.g., teachers and nurses)
  - serving students from underserved geographical areas.
- partnering to develop a comprehensive services center under the auspices of AIKCU to bundle campus support and related administrative functions at substantial cost savings.

10.3 Recommendations for AIKCU

AIKCU serves a dual role for its members as a result of restructuring that took place in the mid-1990s. The Association serves as the public policy agent as well as a corporate relations/fundraising agent. These roles are reasonable and compatible. However, recent studies and interviews completed as a part of this study indicate the fundraising/corporate relations role is unsettled. This matter should be resolved and general recommendations follow to offer guidance in this regard.

The Association's public policy role is much better defined, understood and supported by all parties. It serves as the state level vehicle to coordinate and represent the institutional members in the development of state postsecondary education programs and policies. In our interviews with institutional and state officials, AIKCU was recognized as performing well in this role. At the same time, concern was expressed that AIKCU could and must become more active in representing the independent institutions to state policymakers, developing specific programs, serving as a

communication conduit between state and institutional officials, promoting independent institutions' services to the state, and assisting the institutions in both marketing their services and improving their operations. To this end, a set of recommendations has been developed to refocus AIKCU activities and prepare it to more effectively serve its members.

Recommendation 10-3-1: AIKCU should continue to provide both the leadership and support services in the public policy arena by:

- preparing and implementing a comprehensive plan of action to improve state policies and relationships;
- preparing specific proposals for presentation to SCOPE, CPE, the Governor, and Legislature;
- monitoring the activities of SCOPE, the CPE, KHEAA, Governor's Office, and Legislature and communicating those activities to institutional officials;
- serving as a point of contact between the individual institutions and state entities;
- representing independent higher education in an array of policy venues; and
- representing independent institutions in the national policy arena, primarily in concert with the National Association of Independent Colleges and Universities (NAICU).

Recommendation 10-3-2: AIKCU should become more effective in preparing and supporting cooperative campus approaches to working with state public policy makers and state public policy initiatives. AIKCU staff, with campus support and participation, should:

- educate the campus community about state policy issues;
- conduct periodic on-campus policy seminars or informational sessions for decision makers at each member institution;
- coordinate multi-campus communication between the campus community and state policy-makers;
- organize meetings for institutional leaders with state policy leaders;
- provide feedback about and evaluation of the level of success of collective policy initiatives; and

- develop plans to more effectively include constituent groups—students, faculty, staff, alumni, campus trustees and local community leaders—in support of independent higher education in the public policy process.

Recommendation 10-3-3: The Association's Foundation (i.e., fundraising/corporate relations arm) should concentrate on activities that more directly support cost containment, public relations, and an array of cooperative efforts in which member institutions may choose to participate. Fundraising to support these activities as well as fundraising to support student scholarships should continue. The following activities are suggested to achieve these purposes:

- concentrate Foundation efforts on the enhancement of member services, cooperative initiatives and fundraising to support these activities and to support the Foundation's Named Scholars Program;

- utilize the Foundation as the vehicle to pursue innovative and creative initiatives and partnerships that enhance institutional and Association revenues, reduce institutional costs, improve member services, and bring positive visibility to independent higher education;

- intensify fundraising efforts with foundations and other organizations that are likely to underwrite cooperative programming and cost-saving efforts;

- enhance public information/marketing capabilities on behalf of independent higher education;

- adopt strategies that provide the fiscal support necessary for the Association to carry out expanded responsibilities.

Recommendation 10-3-4: Multimember entities generally labeled "services centers" that bundle support and related administrative functions for a grouping of organizations are proving to be very cost-effective. Such entities are suited especially well for the organizations that comprise AIKCU. These multimember entities bring economies of scale and enhanced professional support to smaller organizations that have similar missions. They allow organizations to focus on their core missions (e.g. the delivery of higher education courses and programs) while collaborating to efficiently provide a range of management support services. AIKCU currently is functioning in an ad hoc way to promote collaborative business activities among its members. Such efforts need to be better organized, institutionalized and adequately supported to be effective. Leaders of AIKCU member institutions should join with AIKCU staff to:

- undertake a services center feasibility study;

- evaluate currently operating service centers supporting higher education and other type organizations to help identify which structure best meets the needs of AIKCU members;

- draft a business plan for a services center;

- join with AIKCU leadership in seeking the external, short-term funding necessary to launch a services center;
- develop an oversight committee that might include both campus and foundation business trustee leaders to provide guidance to a services center;
- establish a unit within AIKCU to manage the services center;
- construct mechanisms that over a designated period of time will provide the resources necessary to make the services center self-supporting; and
- establish a process of systematic evaluation of services center effectiveness.

Recommendation 10-3-5: The success of the state's independent institutions depends on a number of factors, not the least of which is an effective statewide association. AIKCU is a fledgling organization established in 1994. Further improvements in the structure and functioning of the Association are necessary if the independent higher education community is to succeed in the current policy and business environments. To enhance Association success, the following activities should be completed:

- Redesign the Association governance structure so that policy and foundation functions are integrated and mutually reinforcing;
- Formulate a committee structure that will result in effective involvement of campus presidents and Foundation business leaders in Association decision-making;
- Consolidate Association and Foundation staff functions whenever feasible to maximize effectiveness and contain overhead costs;
- Identify and implement measures that provide the fiscal support necessary for the Association to carry out the expectations outlined in this report; and
- Evaluate Association effectiveness periodically and make changes as necessary.

Kentucky's nineteen independent colleges and universities that make up the Association of Independent Kentucky Colleges and Universities have both tremendous opportunities and challenges before them. By debating and implementing the foregoing set of recommendations, the institutions, the Commonwealth, and the students these institutions educate will benefit greatly.

APPENDICES

APPENDIX A

INTERVIEW GUIDES

APPENDIX A

Association of Independent Kentucky Colleges and Universities
Interview Guide for Independent College and University Presidents

Name:
Organization:
Date:
Interviewer:

Higher Education and State Policy Environment

1. How would you describe the current environment for independent institutions in Kentucky?

2. What are the greatest challenges in the current environment? What are the greatest opportunities?

3. How would you describe the current fundraising environment?

4. What is the impact of specific public higher education policies and reforms on your institution (e.g., funding, enrollments, academic programs, etc.)?

5. What is the impact of specific actions by public universities on your institution (e.g., funding, enrollments, academic programs, etc.)?

6. What is the impact of technology and distance learning on your institution (e.g., funding, enrollments, academic programs, etc.)?

7. How can the Commonwealth better utilize your institution and other independent institutions in Kentucky?

8. Are you aware of any model programs or policies in other states regarding utilization of the independent sector that should be considered here in Kentucky?

9. What do independent institutions in Kentucky need to do to maximize their potential contributions to state higher education reforms and policies?

Institutional Capacity

10. About how many more students could you accommodate given your current facilities?

11. About how many more students could you accommodate without adding new faculty or staff?

12. About how many more students could you accommodate by expanding to desired capacity?

AIKCU Organizational Issues

13. What do independent institutions need to do to thrive in a highly competitive and subsidized market?

14. AIKCU is an evolving organization. What are your expectations of the organization in fundraising?

    corporate relations?

    the state policy arena?

    the national policy arena?

    bringing together various groups like the chief academic officers, business officers, and others?

    identifying ways to develop cooperative activities, especially outside the classroom, to improve productivity or save money in operations?

    raising foundation funds for collaborative activities?

15. What other activities/efforts would you like to see AIKCU undertake?

Other Ideas

16. Do you have any other information or ideas that would be helpful to this study?

Association of Independent Kentucky Colleges and Universities
Interview Guide for State Policymakers

Name/Title:
Organization:
Date:
Interviewer:

Higher Education and State Policy Environment

1. How would you describe the current policy environment for higher education institutions in Kentucky?

2. What are the greatest challenges in the current policy environment? What are the greatest opportunities?

3. How would you describe the current policy environment for independent colleges and universities in Kentucky?

4. How are independent institutions perceived by policymakers? How are they perceived by the public?

5. What do you see as the primary strengths of the independent colleges and universities in Kentucky? What do they have to offer the state?

6. To what extent are the independent colleges and universities currently being utilized in Kentucky to achieve state higher education reforms and goals?

7. What do independent institutions in Kentucky need to do to maximize their potential contributions to state higher education reforms and goals?

8. Are you aware of any model programs or policies in other states regarding utilization of the independent sector that might be beneficial in Kentucky?

AIKCU Organizational Issues

9. What do independent institutions need to do to thrive in a highly competitive and subsidized market?

10. What roles can AIKCU play in serving and promoting independent institutions, both individually and collectively?

Other Ideas

11. Do you have any other information or ideas that would be helpful to this study?

Association of Independent Kentucky Colleges and Universities
Interview Guide for Business Leaders Serving on the Foundation Board

Name:
Organization:
Date:
Interviewer:

Higher Education and State Policy Environment

1. How would you describe the current environment for independent institutions in Kentucky?

2. What are the greatest challenges in the current environment? What are the greatest opportunities?

3. How would you describe the current fundraising environment?

4. What is the impact of specific public higher education policies and reforms on independent institutions (e.g., funding, enrollments, academic programs, etc.)?

5. What is the impact of specific actions by public universities on independent institutions (e.g., funding, enrollments, academic programs, etc.)?

6. What is the impact of technology and distance learning on independent institutions (e.g., funding, enrollments, academic programs, etc.)?

7. How can the Commonwealth better utilize the independent institutions in Kentucky?

8. What do independent institutions in Kentucky need to do to maximize their potential contributions to state higher education reforms and policies?

9. How are independent institutions perceived by policymakers? How are they perceived by the public?

AIKCU Organizational Issues

10. What do independent institutions need to do to thrive in a highly competitive and subsidized market?

11. AIKCU is an evolving organization. What are your expectations of the organization in fundraising?

    corporate relations?

    the state policy arena?

    the national policy arena?

bringing together various groups like the chief academic officers, business officers, and others?

identifying ways to develop cooperative activities, especially outside the classroom, to improve productivity or save money in operations?

raising foundation funds for collaborative activities?

12. What other activities/efforts would you like to see AIKCU undertake?

Other Ideas

13. Do you have any other information or ideas that would be helpful to this study?

APPENDIX B

TELEPHONE SURVEY

APPENDIX B

Association of Independent Kentucky Colleges and Universities
Telephone Survey of State Associations

Name:
Organization:
Date:
Interviewer:

1. How is your organization set up? Is it a joint policy and foundation organization? Or does it serve just one of those functions? If so, which one?

2. How is your state organized for public policy decisions for independent institutions?

3. How are the independent institutions, either individually or collectively, included in that process?

4. To what extent do independent institutions in your state, either individually or collectively, have a voice in that process?

5. Does your state have public policies or programs in place to utilize the services of independent institutions? If so, please describe. (e.g., financial aid, academic program contracts, etc.)

6. Does your state have public policies or mechanisms in place to minimize competition between the public and independent sectors? If so, please describe.

7. Does your association have programs or strategies in place to assist institutions in gaining revenues or reducing costs? If so, please describe. (e.g., joint fundraising, marketing, purchasing etc.)

8. Have independent institutions taken any other actions, either collectively or individually, to thrive in a highly competitive market? If so, please describe. (i.e., activities for increasing enrollments, raising funds, reducing costs, improving student learning, etc.)

9. Indicate the level of priority or relative importance that your Association places on the following activities? (High—Medium—Low—None)

   _____ Representing independent institutions in the state higher education policy process.

   _____ Representing independent institutions in the national higher education policy process.

   _____ Raising funds for dissemination to individual independent higher education institutions.

_____ Raising funds for collective activities of independent institutions (e.g., scholarship programs, marketing, etc.).

_____ Establishing corporate relationships for independent institutions (e.g., internships, corporate contributions, public awareness, lobbying).

_____ Coordinating a collective public relations and marketing effort for independent colleges.

_____ Facilitating cooperative programs among some or all of the independent institutions (e.g., public lecture series, scholarship program, grant applications, etc.).

_____ Identifying cooperative activities to improve productivity or reduce costs (e.g., joint purchasing, technology contracts, insurance programs, etc.)

_____ Bringing administrators and/or faculty together with their peers from other independent institution for professional development and networking.

_____ Collecting and disseminating statistics and/or conducting research related to independent higher education.

10. Are there any states that you know of that have model programs that we should contact?

11. Additional thoughts or comments?

APPENDIX C

POLICY SUMMARY FOR HIGHER EDUCATION

APPENDIX C
POLICY SUMMARY FOR HIGHER EDUCATION IN KENTUCKY, 1995 - PRESENT

Policy Action or Event	Date	Description/Summary
Governor Paul E. Patton (Democrat) takes office	December 1995	In his inaugural address, Patton said he wanted to make his mark as the "higher education Governor."
Senate Concurrent Resolution 93 signed by the Governor	March 29, 1996	Established the Task Force on Postsecondary Education, chaired by the Governor and composed of 18 members representing both executive and legislative branches of government.
Task Force on Postsecondary Education starts meeting	July 1996	Embraced the following goal: To assure that Kentucky's postsecondary education and technical education system is positioned to provide the human capital needed to allow the Commonwealth to be a leader in the global economy of the 21st century. Advisory groups were charged with developing position papers to identify critical issues and make recommendations to the Task Force.
Independent Colleges and Universities Position Paper submitted to the Task Force on Postsecondary Education	October 15, 1996	Recommendations: ■ Higher education policy should recognize the fundamental role of broad-based, liberal arts education and its value to individuals, business/industry, and society. ■ Higher education policy should encourage cooperative strategies between the independent sector and the state in order to lower the overall investment of taxpayer dollars. ■ Need-based student aid allowing for access and choice should be related to tuition charges and should be fully funded by the Commonwealth. In addition, new student aid programs that acknowledge academic achievement as well as student financial need should be explored. ■ The funding formula should reward quality, cooperation, cost containment efforts, and the ability of students to choose the type of institution best suited to their needs and abilities rather than institutional expansion. ■ State-supported tuitions should be related to a reasonable percentage of the cost of education and the consumers' ability to pay. Further, a tuition policy should reward degree completion and discourage students from dropping in and out of the system. ■ All postsecondary providers, public and private, should be invited to participate in new technologies and information services that are developed with taxpayer dollars. Further, all providers should have equal access to state-sponsored research and public service contracts. ■ An on-going forum should be developed for the varied postsecondary education providers to discuss issues of common concern and work collectively toward solutions. Only when the Commonwealth puts all institutions side-by-side at the decision-making table will collaborative, cost-effective solutions be found.

APPENDIX C (Continued)
POLICY SUMMARY FOR HIGHER EDUCATION IN KENTUCKY, 1995 - PRESENT

Policy Action or Event	Date	Description/Summary
Postsecondary Education in Kentucky: An Assessment – Report to the Task Force on Postsecondary Education	March 10, 1997	National Center for Higher Education Management Systems (NCHEMS) reported the following key findings: ■ Kentucky lacks a structure to link all of its postsecondary education resources with a long-range strategy to enhance the economic competitiveness and quality of life of its citizens. ■ The current funding mechanisms for postsecondary education serve as disincentives for program efficiency and institutional cooperation. ■ Postsecondary education offers virtually no incentives for the attainment of quality and the pursuit of excellence. ■ Kentucky seriously lags the nation and competitor states in research and development activity. ■ The current system of postsecondary education has no comprehensive strategy to maximize the use of existing and emerging technologies. Additionally, they recommended the following statewide goals: ■ To ensure the postsecondary education system in Kentucky is effectively linked to statewide priorities and an economic growth vision for the 21st century. ■ To ensure the postsecondary education system is effectively coordinated and provides a seamless educational process for the citizens of the Commonwealth. ■ To ensure a financing structure for the postsecondary education system which encourages innovation, efficiency, and system excellence. ■ To ensure the emergence of nationally recognized research and graduate programs that will serve as incubators of economic growth. ■ To ensure the use of state-of-the-art technology to guarantee maximum system access and delivery coordination for a seamless system of delivery.
Agenda for the 21st Century: A Plan for Postsecondary Education 212	March 26, 1997	Governor Patton introduced the following reform initiatives: ■ Create the Council on Postsecondary Education (CPE) with a Strategic Linkage to the elected leadership. ■ Create the Kentucky Community and Technical College System (KCTCS) to serve as the Governing Board for the Community Colleges and KY TECH. ■ Create a strategic budget process for postsecondary education. ■ Create a Strategic Committee on Postsecondary Education (SCOPE), a forum which the state political leadership and representatives from CPE will convene and agree on a Strategic Agenda to be presented to the full Council.

APPENDIX C (Continued)
POLICY SUMMARY FOR HIGHER EDUCATION IN KENTUCKY, 1995 - PRESENT

Policy Action or Event	Date	Description/Summary
Regional University Presidents' Support of Governor Patton's Postsecondary Education Reform Plan	April 1, 1997	Unanimous regional university presidential support for Governor Patton's *Agenda for the 21st Century*.
Statement and Resolution of the Council of Independent Kentucky Colleges and Universities in Support of Governor Patton's Plan for Postsecondary Education	April 2, 1997	Unanimous independent college and university presidential support for Governor Patton's *Agenda for the 21st Century*.
Postsecondary Improvement Act of 1997 (HB 1) signed into law	May 30, 1997	Significant Features: ■ Established a Council on Postsecondary Education (CPE) and required it to adopt a Strategic Agenda and to make biennial budget requests. ■ Established a Strategic Committee on Postsecondary Education (SCOPE). ■ Established the Kentucky Community and Technical College System (KCTCS). ■ Established Strategic Investment and Incentive Funds for public institutions. ■ Established the Commonwealth Virtual University.
SB 21 signed into law	April 14, 1998	Created the Kentucky Education Excellence Scholarship (KEES). Allocated a portion of the net profits from the state lottery to merit-based scholarships for students who attend a participating public or independent higher education institution in Kentucky. Provided for students in certified Kentucky high schools to qualify for scholarship monies based on yearly grade point average and bonus awards based on highest ACT (or equivalent SAT) score attained by their high school graduation date. Provided for Kentucky residents attending non-certified Kentucky high schools and students obtaining a GED in Kentucky within five years of their 18th birthday to qualify for bonus awards. The base scholarship for each year of high school ranged from $125 to $500. Bonus awards ranged from $21 to $300. These awards could be used to pay the expenses of each year of college or technical training.
First President of the Council on Postsecondary Education	June 1998	Gordon K. Davies is selected.
Council on Postsecondary Education Adopts Statement Guiding the Development of the Kentucky Virtual University (KYVU)	July 13, 1998	Outlines 15 guiding principles to be considered in the development of the Kentucky Virtual University, for which responsibility was assigned to the Council on Postsecondary Education.
First President of the Kentucky Community and Technical College System	January 1999	Michael B. McCall is selected.

APPENDIX C (Continued)
POLICY SUMMARY FOR HIGHER EDUCATION IN KENTUCKY, 1995 - PRESENT

Policy Action or Event	Date	Description/Summary
2020 Vision: An Agenda for Kentucky's System of Postsecondary Education	1999	This document outlined the broad vision for reforms and the roles of postsecondary education providers: ■ KCTCS will be the primary provider of two-year transfer and technical programs, workforce training for existing and new businesses/industries, and remedial and continuing education to improve quality of life and employability of citizens. ■ Regional Universities will work cooperatively to assure statewide access to appropriate, high quality baccalaureate and master's degree programs. Each university will develop at least one program of national distinction. ■ The University of Louisville will be a premier, nationally recognized metropolitan research university. ■ The University of Kentucky will be a major comprehensive research institution ranked nationally among the top twenty public institutions. ■ Independent Institutions offer rich and diverse postsecondary education choices throughout the state. Kentucky's people are best served by a broad array of postsecondary education providers. This vital component of our system will be embraced as a full partner in the greater system of postsecondary education of which the state-supported system is a part. ■ The Commonwealth Virtual University will help transform Kentucky's institutions into a coherent system. Electronic delivery of education, training, and services will allow us to go to our citizens rather than force them to come to us. It can help us get the most out of the dollars the public invests in the system. Calls on postsecondary education providers to answer questions to work toward an action agenda.
Action Agenda, 1999 – 2004 Council on Postsecondary Education	1999	Outlined the responsibilities or required actions on the part of the system, the institutions, and the CPE. System: ■ Team with others to solve community and statewide problems

APPENDIX C (Continued)
POLICY SUMMARY FOR HIGHER EDUCATION IN KENTUCKY, 1995 - PRESENT

Policy Action or Event	Date	Description/Summary
Action Agenda, 1999 – 2004 Council on Postsecondary Education (Cont'd)	1999	■ Expand opportunity and achievement in postsecondary education ➢To increase public and private undergraduate Kentucky enrollment from 160,600 in 1998 to 240,600 in 2020 ➢To increase graduate/professional enrollments at the University of Kentucky by 200 students from 1998 to 2004 ➢To increase graduate/professional enrollments at the University of Lexington by 300 students from 1998 to 2004 ➢To increase retention rates at each of the public institutions from 1998 to 2006 ➢To increase baccalaureate graduate rates at each of the public institutions from 1998 to 2006 ➢To increase statewide college going rates from 53.1 percent in 1998 to 56.8 percent in 2006 (national average is 67.0 percent) Institutions: ■ Focus on highest quality possible ■ Use technology wisely ■ Use resources effectively ■ Target underserved areas ■ Help employers be successful ■ Model the Action Agenda Council: ■ Rationalize budgeting ➢Operating and capital ➢Incentives toward 2020 aspirations ■ Deregulate ➢Institutions approve most new academic programs ➢Institutions set tuition rates within broad guidelines ➢Institutions set admissions requirements ■ Streamline ■ Bridge the gaps to build a true system ■ Monitor performance and report results ■ Advocate

APPENDIX C (Continued)
POLICY SUMMARY FOR HIGHER EDUCATION IN KENTUCKY, 1995 - PRESENT

Policy Action or Event	Date	Description/Summary
Action Agenda, 1999-2004: What Independent Colleges and Universities Will Do to Advance Kentucky's Reform of Postsecondary Education	October 28, 1999	Value of the independent sector: ■ Provides high quality educational choice. ■ Individualized education in a values-rich environment. ■ Focuses on undergraduate education. ■ High degree productivity. ■ Awards high proportion of degrees in the state for critical areas such as math, biology, chemistry, computer science, and teaching. ■ Provides $80 million each year in self-generated financial aid and maintain tuition well below the national average for independent institutions. ■ Provides educational choice that is cost-effective for the state. Strategies to improve educational attainment: ■ Enroll, retain, and graduate more students. ■ Expand and enrich academic offerings through distance learning, accelerated degree programs, night/weekend colleges, and other nontraditional programs. ■ Collective marketing and public awareness about accessibility of independent higher education and outreach to high schools and nontraditional students. ■ Align academic requirements more closely with secondary schools and state-supported postsecondary institutions to ease the transition. ■ Cooperate in new ways to control costs, remain competitive, and meet state goals. ■ Place high priority on education and support of quality teachers. Enhance partnerships with the State to achieve education goals: ■ Financial barriers to higher education should be eliminated. Independent institutions will encourage the state to invest more in student financial aid and to continue the evaluation of these programs. ■ Independent colleges, especially in cooperative arrangements, should be allowed to compete for targeted state funds and participate in incentive funding arrangements that are consistent with their missions and will further the educational objectives of the Commonwealth

APPENDIX C (Continued)
POLICY SUMMARY FOR HIGHER EDUCATION IN KENTUCKY, 1995 - PRESENT

Policy Action or Event	Date	Description/Summary
The Case for Public Support of Independent Higher Education in Kentucky	March 1999	Legal opinion, written by Wyatt, Tarrant, & Combs for AIKCU: This question is largely a constitutional concern which focuses on the status of Kentucky's independent colleges and universities as private entities, many of which have some degree of affiliation to a church, denomination, or sectarian organization. The main argument presented by opponents of direct aid to independent institutions is two-pronged. First, opponents argue that public funds cannot be appropriated to a private entity. Second, they argue that any state program that provides funding to a college or university affiliated with a religious sect or denomination violates the Establishment Clause of the First Amendment to the U.S. Constitution and corresponding state constitutional provisions. The research indicates that public support of independent higher education in Kentucky is permissible and appropriate: ■ State and federal governments currently support private colleges and universities without Constitutional violations. ■ Separation of church and state under the First Amendment of the U.S. Constitution does not prohibit all public support of independent, sectarian colleges and universities. The test set forth in *Lemon v. Kurtzman*, 403 U.S. 602 (1971), is used to determine whether the state aid programs violate the establishment clause. The modern Lemon test has three prongs: 1. That the state aid have a secular purpose; 2. That the state aid have a primary effect other than the advancement of religion, i.e., the aid may not go to an institution in which religion is so pervasive that a substantial portion of its functions are subsumed in the religious mission and that sectarian and secular functions are inseparable or when the aid funds a specifically religious activity in an otherwise substantially secular setting; and 3. That the state aid have no tendency to entangle the state excessively in church affairs. ■ The Kentucky Constitution does not prohibit all direct aid to independent colleges and universities.
Governor Patton begins second term in office	December 1999	Patton becomes the first Kentucky Governor in nearly 200 years to be elected to two successive terms. In his second inaugural address, he says, "the top priority for the next four years will be education, education, education and education."

APPENDIX D

FUNDS AND FUNDING MECHANISMS

APPENDIX D
FUNDS AND FUNDING MECHANISMS FOR KENTUCKY POSTSECONDARY EDUCATION BY SECTOR

Type	Policy	Funds for Public Sector	Funds for Independent Sector
Appropriations	Lump sum operating appropriation to each public institution. Base funding plus benchmark funding and special initiatives (select institutions only). The benchmark funding process was developed to compare Kentucky institutions to other higher education institutions around the nation. A cooperative process (involving the Council staff, institutions, the Governor's Office for Policy and Management, and the Legislative Research Commission) was used to develop the list of benchmark institutions for each Kentucky public institution. Considers "total public funds" per FTE, i.e., sum of state appropriations, tuition/fees, and local appropriations to community/technical colleges. For 2000-2002, the Council endorsed using the 55th percentile (based on a three-year period) among the benchmark institutions as the funding objective for requesting state support. Also provides for an inflationary increase consistent with other state agencies.	FY 01 - $880,351,100 FY 02 - $935,367,700	$0
Trust Funds	**Research Challenge Trust Fund** – Incentive fund to support research activities at University of Kentucky and University of Louisville. ■ Endowment Program ■ Enrollment Growth and Retention Appropriated to the Council and distributed to institutions on a matching basis for the endowment program and per CPE guidelines for enrollment and retention.	**Enrollment Growth and Retention Fund:** FY 01 – UK, $1,200,000 , $250,000 to LCC, U of L $450,000 FY 02 to be allocated by CPE adopted guidelines **Endowment Match Program:** $100,000,000 total for the biennium – UK receives 2/3 and UofL receives 1/3	$0

APPENDIX D (Continued)
FUNDS AND FUNDING MECHANISMS FOR KENTUCKY POSTSECONDARY EDUCATION BY SECTOR

Type	Policy	Funds for Public Sector	Funds for Independent Sector
Trust Funds	**Regional University Excellence Trust Fund** – Incentive fund to support the goal of creating six distinctive regional universities, each with at least one program of distinction. ■ Endowment Program ■ Action Agenda ■ Model Schools of Education and Teacher Quality Appropriated to the Council and distributed to institutions on a matching basis for the endowment program and per CPE guidelines for the other programs.	**Enrollment Growth and Retention Program:** FY 01 and 02, total funding each year, $2,850,000 First Year distribution is as follows: ■ EKU, $850,000 ■ KSU, $400,000 ■ Morehead, $350,000 ■ Murray, $200,000 ■ NKU, $350,000 ■ WKU, $700,000 FY 02 guidelines to be set up by the Council **Action Agenda Program:** FY 02, $10,000,000. The Council is encouraged to set aside $4,000,000 of that to fund initiatives addressing issues of teacher quality **Endowment Match Program:** $20,000,000 to be allocated by the CPE (matching funds)	$0
Trust Funds	**Workforce Development Trust Fund** – Incentive fund to support the development of a comprehensive community/technical college system to increase access and promote economic development. ■ Action Agenda ■ Administrative Information Systems Appropriated to the Council and distributed to institutions per CPE guidelines.	**Enrollment and Retention Program:** FY 01 and 02 - $3,500,000 each year **Workforce Training Program:** FY 01 and 02, $6,000,000 each year. The Council is encouraged to reserve $2,000,000 of this for high tech training **Administrative Information Systems:** FY 01 - $4,000,000	$0
Trust Funds	**Physical Facilities Trust Fund** - Incentive fund to provide financial assistance for unexpected contingencies for the construction, improvement, renovation, or expansion of facilities. Appropriated to the Council and *provided to institutions on a matching basis.*	**Capital Renewal and Maintenance Program:** FY 02 - $3,018,000 for debt service	$0

APPENDIX D (Continued)
FUNDS AND FUNDING MECHANISMS FOR KENTUCKY POSTSECONDARY EDUCATION BY SECTOR

Type	Policy	Funds for Public Sector	Funds for Independent Sector
Trust Funds	**Technology Initiative Trust Fund** - Incentive fund to support investments in electronic technology that will improve student learning (includes Commonwealth Virtual University). ■ Equipment Replacement ■ Network Infrastructure ■ Public Communications Campaign ■ Faculty Development Appropriated to the Council and distributed to institutions on a matching basis for equipment replacement and per CPE guidelines for the other programs.	**Equipment Replacement:** FY 02 - $3,800,000 for debt service for equipment replacement program (if spent on research equipment, they have to match) **Network Infrastructure:** FY 02 - $1,200,000 for expansion of Network Infrastructure **Faculty Development:** FY 02 - $1,000,000	$0
Trust Fund	**Science and Technology Trust Fund** are provided to implement the recommendations included in the Kentucky Science and Technology Strategy developed by the KY Science and Technology Corporation	**Research and Development Voucher Program:** FY 02 - $3,000,000 with funds to be allocated by the Council **Commercialization Program:** FY 02 - $750,000 **Regional Technology Corporations Program:** FY 02 - $500,000 for the establishment of regional technology corporations **Rural Innovation Fund:** FY 01 - $1,000,000	Undetermined

APPENDIX D (Continued)
FUNDS AND FUNDING MECHANISMS FOR KENTUCKY POSTSECONDARY EDUCATION BY SECTOR

Type	Policy	Funds for Public Sector	Funds for Independent Sector
Trust Funds	**Student Financial Aid Trust Fund** - Incentive fund to provide merit-based financial assistance that encourages student access to postsecondary education, including public and private institutions. Appropriated to the Council and distributed per CPE guidelines.	**Kentucky Educational Excellence Scholarship:** FY 01 - $22,350,000 FY 02 - $37,500,000 **National Guard Tuition Program:** FY 01 - $1,736,000 FY 02 - $1,972,900 (Independent sector students funded only after all public sector students are funded) **College Access Program:** FY 01 - $33,376,000 FY 02 - $33,600,000 **Teacher Scholarships**: FY 01, $1,983,300 FY 02, $2,0322,500 **State Work-Study Program:** $1,000,000 each year of biennium, public and private students	**Independent sector students are eligible for all those student aid programs available to public sector students.** **Kentucky Tuition Grant:** FY 01 - $14,304,000 FY 02 - $14,400,000 (for independent college students only, based on need) **Osteopathic Medical Scholarships**: FY 01 - $1,420,000 FY 02 $1,379,500 (for students at the Pikeville College School of Medicine)
Trust Funds	**Adult Education and Literacy Trust Fund –** Incentive fund to support development of a long-term strategy for adult education and literacy and include a statewide network for linking all county and regional providers. Appropriated to the Council and allocated to providers of adult education as part of a plan developed by the Council and the Department for Adult Education and Literacy.	FY 01 and FY 02 - $2,000,000 each year for regional strategies, state initiatives, and research and development activities FY 01, $5,000,000 and FY 02 - $10,000,000 for additional services as determined by the state-wide strategic agenda (primarily to fund $250 per semester tuition discounts for eligible adult learners at public institutions)	$0

FUNDS AND FUNDING MECHANISMS FOR KENTUCKY POSTSECONDARY EDUCATION BY SECTOR

Type	Policy	Funds for Public Sector	Funds for Independent Sector
Capital Funds	The Council recommends priority projects and pools using state and agency bonds with associated debt service. The Council also lists other projects that institutions might pursue with their own funds. In early 1999, national consultants, working with Council staff and representatives of the institutions, developed guidelines for facilities space planning and standards for use of space. The new gauges, approved by the Council, reflect, moderately, those used in other states. All requests for new space are measured against the new guidelines and standards.	FY 01 – $51,180,700 FY 02 – $50,305,700	$0

APPENDIX E

THE CASE FOR PUBLIC SUPPORT OF INDEPENDENT HIGHER EDUCATION

APPENDIX E

ASSOCIATION OF INDEPENDENT KENTUCKY COLLEGES AND UNIVERSITIES

THE CASE FOR PUBLIC SUPPORT OF INDEPENDENT HIGHER EDUCATION IN KENTUCKY[1]

I. Introduction

The question of whether the Commonwealth may establish and make available programs of direct institutional support for Kentucky's independent colleges and universities is a multi-faceted issue which raises economic, political and legal concerns. Leaving aside the economic and political aspects of this equation, we have focused our efforts in determining whether there are legal constraints in establishing a state-funded program of institutional aid. This question is largely a constitutional concern which focuses on the status of Kentucky's independent colleges and universities as *private entities* many of which have some degree of *affiliation* to a church, denomination or sectarian organization.

The main argument presented by opponents of public support for higher education at private, denominational and sectarian colleges and universities is two-pronged. First, opponents argue that public funds cannot be appropriated to a private entity. Second, it is urged that any state program which provides funding to a college or university affiliated with a religious sect or denomination violates the "Establishment Clause" of the First Amendment to the United States Constitution and corresponding state constitutional provisions. Both of these concerns are addressed in this summary memorandum.

[1] Legal opinion written by Wyatt, Tarrant, and Combs, March 1999.

II. Public Support of Independent Higher Education in Kentucky is Permissible and Appropriate

A. State and federal governments currently support private colleges and universities without constitutional violations.

Many states and the federal government support aid programs to independent colleges and universities without violating the Establishment Clause. In 1976, the Supreme Court of the United States held in *Roemer v. Maryland Public Works Bd.*, 426 U.S. 736 (1976), that a Maryland statute authorizing the payment of state funds to any private institution of higher learning in the state that met certain minimum criteria and refrained from awarding only seminarian or theological degrees was constitutional. The aid in that case was in the form of an annual fiscal year subsidy, based upon the number of students, excluding those in seminarian or theological academic programs. The noncategorical grants could be used only for non-sectarian purposes.

In the case of *Tilton v. Richardson*, 403 U.S. 672 (1971) the Supreme Court upheld the constitutionality of a federal grant direct aid program for the construction of academic colleges, some of which were church related, with the restriction that the facilities not be used for any sectarian purpose. The challenged aid was also for the construction of secular college facilities in the case of *Hunt v. McNair*, 413 U.S. 734 (1973). There, the Court found the South Carolina program to be constitutional, being one to finance campus construction projects by revenue bonds issued though a state authority created solely for that purpose. In this program, participating private colleges serviced and repaid the bonds, but at the lower cost resulting from the tax-free status of the interest payments. Our initial examination of these cases indicates that, in addressing whether a state direct aid program to independent colleges and universities is permissible, the Supreme Court has yet to find that such a program violates the Establishment Clause.

The State of Washington also provides support to independent colleges and universities by issuing special bond obligations for financing the construction or improvement of school facilities. The Supreme Court of Washington held in *Washington Higher Education Facilities Authority v. Gardner, 699* P.2d 1240 (1985), that this bond program did not violate the Establishment Clause of the United States Constitution nor its own constitution which provided that "[a]ll schools maintained or supported . . . by the public funds shall be forever free from sectarian control or influence." Minnesota also supports a similar bond program for facility construction on independent campuses. Maryland provides direct grants to nonprofit private colleges and universities through its Sellinger Program, in amounts based on the number of full-time students attending the schools. Aid under the Sellinger program is granted only if the school awards degrees in one or more subjects other than seminarian or theological programs and if the school demonstrates that the funds will not be used for sectarian purposes. In Nebraska, state contracts with independent colleges and universities for research of cancer and smoking disease has been upheld under both the constitutions of Nebraska and the United States. Wisconsin provides direct funding to the Mauquette School of Medicine, a private medical school with ties to a sectarian university.

Many other states provide direct and indirect support in aid of independent institutions of higher education. May the Commonwealth of Kentucky do likewise?

B. Separation of church and state under the First Amendment of the United States Constitution does not prohibit all public support of independent, sectarian colleges and universities.

The First Amendment to the United States Constitution provides, in pertinent part, that "Congress shall make no law respecting an establishment of religion, or prohibiting the free exercise thereof . . . ." The Fourteenth Amendment requires that States also protect these rights. The Establishment Clause has often been interpreted by opponents of public support of independent higher education as requiring a wall of absolute separation of church and state.

However, the past and recent decisions of the United States Supreme Court do not support such a narrow interpretation.

As the Supreme Court stated in *Roemer v. Maryland Public Works Bd.*, 426 U.S. 736 (1976), "[n]eutrality is what is required." The Court further instructed that "[t]he State must confine itself to secular objectives, and neither advance nor impede religious activity." In *Roemer*, applying the *Lemon* test discussed below, the Supreme Court affirmed the lower court's ruling that a Maryland program which provided for direct grants of state funds to any private institution of higher learning within the state that met certain minimum criteria and refrained from awarding only seminarian theological degrees was constitutional.

The test set forth in *Lemon v. Kurtzman*, 403 U.S. 602 (1971), is used to determine whether state aid programs violate the establishment clause. The modern Lemon test has three prongs:

1. that the state aid have a secular purpose;

2. that the state aid have a primary effect other than the advancement of religion, i.e., the aid may not go to an institution in which religion is so pervasive that a substantial portion of its functions are subsumed in the religious mission and that sectarian and secular functions are inseparable or when the aid funds a specifically religious activity in an otherwise substantially secular setting; and

3. that the state aid have no tendency to entangle the state excessively in church affairs.

The requirement set out in the first prong is easily met by state programs to fund independent higher education. Higher education has been widely recognized to serve a public purpose. As to the second prong, advancement of religion can be restricted by limiting the use of the public aid to institutions which are not pervasively sectarian and providing funds only for those uses which are secular. The third prong, commonly known as a prohibition against "excessive entanglement" requires that the state not become overly involved with church and religious organizations due to program administration or monitoring. This is a particularly significant distinction between the funding of independent higher education as opposed to

parochial elementary and secondary schools. In the later, the Courts have recognized that religious teaching and indoctrination often play a integral and inseparable role in the academic environment. Here, the sort of monitoring necessitated by public funding would likely lead to excessive entanglement by the government. However, given the nature of higher education as recognized by the Supreme Court, it has been acknowledged that there is lesser risk that religion or religious indoctrination will seep into the teaching of secular subjects and need for intrusive monitoring by the government is diminished.

The Court also made clear in *Roemer* that "religious institutions need not be quarantined from public benefits neutrally available to all" and that it is not impermissible for the state to aid a religious institution to perform a secular task because the state frees the institution's resources to be put to non-sectarian ends.

C. The Kentucky Constitution does not prohibit all direct aid to independent colleges and universities.

The Kentucky Constitution requires that the General Assembly provide for a system of common schools. To support this system of common schools, Section 184 of the Kentucky Constitution designated a common school fund. This use of this fund has been historically limited to the support of public schools. Section 189 of the Kentucky Constitution also states: "[n]o portion of any fund or tax now existing, or that may hereafter be raised or levied for educational purposes, shall be appropriated to, or used by, or in aid of, any church, sectarian or denominational school." Older Kentucky cases hold that direct aid for independent colleges and universities which are "church, sectarian or denomination school[s]" cannot be derived from the common school fund or any funds raised for educational purposes. Some of these cases assume that an institution is a "church, sectarian or denominational school" merely because of organizational or historic ties to a particular sect or denomination. Such an analysis is simplistic and ignores the realities of modern higher education, particularly in those liberal arts programs prevalent today in Kentucky. Moreover, as the Supreme Court of the United States has held, it

contravenes the First Amendment to deny funding based solely on the existence of a church or religious affiliation. Section 189 of the Kentucky Constitution must, therefore, be construed to deny the use of such funds only for the support of church, sectarian or denomination schools *whose relationship with a religious sect is pervasive.*

There is no such constitutional limitation on the general fund of Kentucky as these funds are not solely "raised or levied for educational purposes." Section 171 of the Kentucky Constitution does require that taxes may only be collected for public purposes. However, the General Assembly has already recognized that Kentucky's independent colleges and universities serve a public purpose in that they carry a significant part of the Commonwealth's burden of providing higher education to its citizens. It is inarguable that general funds used to provide direct aid to Kentucky's independent colleges and universities will be used for public purposes as long as the grant of those funds prohibits their use for sectarian purposes. If the Commonwealth's general fund can be properly used to build industrial sites and provide tax incentives for private industry for the purpose of job creation and economic development, then it cannot be doubted but that public funds can also be used to advance secular educational programs and infrastructure in independent institutions to help prepare Kentucky's youth for the future. If the General Assembly chooses, as a matter of public policy, to provide direct aid to Kentucky's independent colleges and universities in an appropriate manner, there should be no constitutional impediment to such funding.

While the General Assembly may not be required to fund independent higher education, if it does so, funding cannot be denied to independent colleges and universities with ties to a religious sect or denomination when the affiliation is not pervasive. Separation of church and state does not require that public funds be withheld from independent institutions where public support can be directed to secular programs and purposes. Kentuckians are guaranteed the right to religious freedom under the Free Exercise Clause of the First Amendment to the United

States Constitution and its counterpart, under the Kentucky Constitution. If direct state aid were made available to independent colleges and universities, it could not be withheld merely on the grounds of some religious affiliation unless these ties were so pervasive as to cause the institution's entire program to be regarded as sectarian, as in the case of a seminary where only theological or religious courses of study are taught. If such aid were withheld, students who might otherwise choose to attend a secular course of study at a college or university affiliated with a particular church or denomination would clearly be pressured by monetary restrictions to matriculate elsewhere. While the First Amendment does proscribe direct aid to seminaries or sectarian programs, it does not require the Commonwealth to avoid all funding of otherwise secular programs that are in the public interest merely because of an institution's religious affiliation. Each independent college or university could and should be free to decide for itself whether to apply for or accept such public aid consistent with its own programs and principles.

D. The Kentucky General Assembly should consider support for independent colleges and universities.

The Kentucky General Assembly should as a matter of public policy consider support of the Commonwealth's independent colleges and universities. AIKCU member institutions perform a valuable public purpose by enrolling 12% of the State's undergraduate college students and awarding 20% of all undergraduate degrees in Kentucky. Further, over 80% of the alumni of the independent colleges and universities apparently remain in Kentucky after graduation, adding to Kentucky's workforce and tax base. Independent colleges and universities also benefit Kentucky's workforce by awarding a disproportionate share of degrees which are critical to maintaining Kentucky's competitive edge, including:

- 31% of mathematics degrees
- 21 % of the computer and information science degrees
- 33% of biology degrees
- 21 % of teaching degrees
- 35% of history degrees
- 54% of general business degrees
- 35% of economic degrees

- 26% of chemistry degrees
- 25% of English degrees
- 44% of philosophy and religion degrees

Kentucky's independent colleges and universities keep thousands of Kentuckians from leaving the state for specialized college experiences elsewhere, and also attract an additional 6,000 out-of-state students, making Kentucky a net importer of high quality college students. Enrolling more than 24,000 students and employing more than 5,000 tax-paying Kentuckians, these institutions add to the state's economy a combined annual budget of more than $300,000,000. Often these colleges and universities are the largest and more stable employers in their communities.

Most importantly, Kentucky's public system of higher education cannot meet the state's educational goals alone. If the state-supported system were to absorb all Kentucky residents currently enrolled at Kentucky private colleges and universities, it would cost Kentucky taxpayers an estimated $90 million in direct education subsidies not including the costs of necessary additional capital expenditures. The replacement cost of land, buildings, and equipment of these schools alone would total more than $400 million. In stating its expectation that Kentucky's independent colleges and universities will share in the responsibilities of increasing the number of students attending college in Kentucky, the General Assembly has recognized that the public sector cannot alone meet all of Kentucky's needs for higher education.

III. Conclusion

Kentucky's independent colleges and universities render a valuable public service in providing a quality higher education to thousands of Kentucky's youth each year. These institutions attract a substantial number of talented students from other states, many of whom are likely to remain in Kentucky as valuable members of our communities and workforce. AIKCU member institutions employ thousands of the Commonwealth's citizens in academic, professional and support activities and are often the most significant employer in their locale. The General Assembly would be justified in considering a variety of direct grants and program aids to these independent colleges and universities as an alternative and supplement to the existing public higher education system. In turn, independent institutions would be free to participate in such public programs to the extent such programs are consistent with each institution's unique mission and purpose.

While many of Kentucky's independent colleges and universities have historic, organizational and limited financial ties to various churches and religious organizations, these affiliations do not justify the complete absence of public support. There are many long-standing programs of direct institutional aid from the federal government and many of Kentucky's sister states to independent colleges and universities with numerous denominational and sectarian affiliations. Such programs aptly demonstrate the public benefit and fiscal propriety of such investments.

The principle of separation of church and state as set forth in the First Amendment of the Constitution of the United States and its counterparts in the Kentucky Constitution is not offended by such aid where it serves a secular purpose and the institution is not pervasively sectarian in character. Numerous decisions of the Supreme Court of the United States as well as other federal and state courts dealing with direct aid programs have clearly demonstrated that such programs can withstand constitutional scrutiny. The Kentucky Constitution, while it

seeks to withhold school funds from "church, sectarian and denominational schools," should be not be interpreted as an absolute prohibition on public funding based merely on the existence of some affiliation with a church or religious group. This is especially so in light of the Supreme Court's decisions regarding the Establishment Clause. In sum, we conclude there is no constitutional impediment to the appropriation of public monies from the Commonwealth's general fund in order to aid Kentucky's independent colleges and universities as they work with Kentucky's public universities in advancing higher education.

APPENDIX F

BACCALAUREATE DEGREES OFFERED AT AIKCU INSTITUTIONS

APPENDIX F

BACCALAUREATE DEGREES OFFERED AT AIKCU INSTITUTIONS, FALL 2000

Baccalaureate Degrees at AIKCU Institutions	Alice Lloyd	Asbury	Bellarmine	Berea	Brescia	Campbells-ville	Centre	Cumber-land	George-town	KY Christian	KY Wesleyan	Lindsey Wilson	Midway	Pikeville	St. Catharine	Spalding	Thomas More	Transyl-vania	Union
AGRICULTURE																			
Agricultural Business/Mgt.				✓								✓							
Equine Studies													✓						
Equine Therapy													✓						
Agricultural Sciences				✓															
AREA, CULTURE STUDIES																			
American Studies									✓			✓							
European Studies									✓										
Intercultural Studies										✓									
BIOLOGICAL SCIENCES/ LIFE SCIENCES																			
Biology	✓	✓	✓	✓	✓	✓	✓	✓	✓		✓	✓	✓	✓		✓	✓	✓	✓
Environmental Sciences						✓			✓				✓						
Biochemistry/Molecular Biology		✓					✓												
Psychobiology							✓												
BUSINESS																			
Business Admin/Mgt	✓	✓	✓	✓	✓	✓		✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Business Admin/Computer Science									✓										
Business Admin/Ethics									✓										
Accounting		✓	✓		✓	✓		✓	✓		✓	✓	✓	✓		✓	✓	✓	✓
Accounting Information Systems			✓											✓					
Administrative Services						✓		✓		✓									
Finance									✓	✓									
International Business			✓						✓										
Marketing						✓			✓	✓									
Organizational Admin.						✓							✓						
CRIMINAL JUSTICE/ CORRECTIONS																			
Criminal Justice Studies						✓					✓			✓			✓		✓
COMMUNICATIONS																			
Communications, General		✓	✓			✓		✓	✓		✓	✓		✓		✓	✓		✓
Journalism		✓				✓													
Radio and Television Broadcasting		✓				✓													

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BACCALAUREATE DEGREES OFFERED AT AIKCU INSTITUTIONS, FALL 2000 (Continued)

Baccalaureate Degrees at AIKCU Institutions	Alice Lloyd	Asbury	Bellarmine	Berea	Brescia	Campbells-ville	Centre	Cumber-land	George-town	KY Christian	KY Wesleyan	Lindsey Wilson	Midway	Pikeville	St. Catharine	Spalding	Thomas More	Transyl-vania	Union
COMPUTER/ INFORMATION SCIENCE																			
Computer Information Systems			✓			✓		✓	✓								✓		
Computer Science		✓	✓		✓		✓		✓		✓			✓		✓		✓	
EDUCATION																			
General Education			✓	✓										✓		✓			
Curriculum and Instruction																✓			
Educational Administration																✓			
Special Education			✓		✓			✓											✓
Student Counseling																✓			
Early Childhood Teacher Education																✓			
Elementary Teacher Education	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓		✓	✓	✓	✓
Middle School Teacher Education	✓	✓	✓	✓	✓	✓		✓	✓	✓	✓	✓	✓	✓		✓	✓	✓	✓
Secondary Teacher Education	✓	✓	✓	✓	✓	✓	✓	✓	✓		✓	✓	✓	✓		✓	✓	✓	✓
Library Science																✓			
Mathematics Education		✓	✓	✓	✓	✓	✓	✓	✓		✓			✓		✓	✓	✓	✓
Music Education		✓	✓	✓		✓		✓	✓	✓								✓	✓
Physical Education	✓	✓		✓		✓		✓			✓	✓						✓	✓
Reading Education																✓			✓
Physical Science Education	✓	✓	✓	✓	✓	✓	✓	✓	✓		✓			✓		✓	✓	✓	✓
Social Studies Education	✓	✓	✓	✓	✓	✓	✓	✓	✓		✓			✓		✓	✓	✓	✓
Spanish		✓					✓		✓		✓							✓	
Spanish Education				✓															
ENGINEERING																			
Computer Engineering			✓																
Applied Science		✓						✓											
Industrial Technology Mgt				✓															
ENGLISH	✓	✓	✓	✓	✓	✓	✓	✓	✓		✓	✓	✓	✓		✓	✓	✓	✓
FOREIGN LANGUAGES/ LITERATURE																			
Foreign Languages, General			✓																
German				✓			✓		✓										
French		✓		✓			✓		✓									✓	
Spanish		✓		✓	✓		✓		✓		✓							✓	
Classics		✓		✓			✓											✓	
Greek							✓												
Latin		✓					✓												

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BACCALAUREATE DEGREES OFFERED AT AIKCU INSTITUTIONS, FALL 2000 (Continued)

Baccalaureate Degrees at AIKCU Institutions	Alice Lloyd	Asbury	Bellarmine	Berea	Brescia	Campbells-ville	Centre	Cumber-land	George-town	KY Christian	KY Wesleyan	Lindsey Wilson	Midway	Pikeville	St. Catharine	Spalding	Thomas More	Transyl-vania	Union
HEALTH PROFESSIONS																			
Community Health Services								✓											
Dietetics				✓												✓			
Medical Technology					✓	✓		✓	✓		✓			✓		✓	✓		
Health/Medical Preparatory Programs								✓	✓										
Health Systems Services					✓														
Nursing, R.N.			✓	✓										✓		✓	✓		
Nursing, Post-R.N.			✓													✓	✓		
Osteopathic Medicine														✓					
Occupational Therapy																✓			
Speech Pathology/ Audiology					✓														
HOME ECONOMICS																			
Child and Family Studies				✓															
INTERDISCIPLINARY STUDIES																			
Biological & Physical Science						✓													
Mathematics & Computer Science					✓														
Human Services											✓	✓		✓					
Interdisciplinary Studies, General	✓										✓								
LIBERAL ARTS AND SCIENCES																			
General Studies and Humanities			✓		✓		✓	✓		✓		✓	✓			✓		✓	
MATHEMATICS																			
Mathematics, General		✓	✓	✓	✓	✓	✓	✓	✓		✓		✓	✓		✓	✓	✓	✓
Applied Mathematics		✓			✓														
Actuarial Science			✓																
PARKS AND RECREATION																			
Parks, Recreation, Facilities Management																			
Health and Physical Education		✓		✓		✓		✓			✓					✓			✓
Athletic Training and Sports Medicine						✓												✓	✓
Sports and Fitness Admin											✓								
Exercise Sciences/ Physiology		✓		✓		✓			✓								✓		✓
PHILOSOPHY AND RELIGION																			
Christian Ministry												✓							
Philosophy		✓	✓	✓			✓		✓							✓	✓	✓	
Religious Studies			✓	✓	✓	✓	✓	✓	✓			✓		✓		✓	✓	✓	✓
Philosophy and Religion								✓			✓								

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BACCALAUREATE DEGREES OFFERED AT AIKCU INSTITUTIONS, FALL 2000 (Continued)

Baccalaureate Degrees at AIKCU Institutions	Alice Lloyd	Asbury	Bellarmine	Berea	Brescia	Campbells-ville	Centre	Cumber-land	George-town	KY Christian	KY Wesleyan	Lindsey Wilson	Midway	Pikeville	St. Catharine	Spalding	Thomas More	Transyl-vania	Union
PHYSICAL SCIENCES																			
Chemistry		✓	✓	✓	✓	✓	✓	✓	✓		✓		✓	✓		✓	✓	✓	✓
Physics			✓	✓	✓	✓	✓	✓	✓		✓						✓	✓	✓
Chemical and Molecular Physics							✓												
PSYCHOLOGY																			
Psychology, General		✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓		✓	✓	✓	✓
Counseling Psychology										✓									
Human Services/ Development			✓								✓								
Art: Emphasis in Art Therapy					✓														
SOCIAL WORK		✓			✓	✓		✓		✓						✓			
SOCIAL SCIENCES																			
Social Science, General		✓			✓	✓	✓					✓		✓		✓			
Economics			✓	✓		✓	✓		✓								✓	✓	
History	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓		✓		✓	✓	✓	✓
International Relations			✓				✓												
Political Science/ Government			✓	✓		✓	✓	✓	✓		✓			✓				✓	
Sociology		✓	✓	✓		✓			✓		✓			✓		✓	✓	✓	✓
Sociology & Anthropology							✓											✓	
THEOLOGICAL STUDIES																			
Biblical Studies		✓				✓		✓		✓				✓					
Missionary Studies		✓								✓									
Religious Education		✓			✓	✓		✓		✓									✓
Church Music						✓		✓	✓	✓									
Theological/ Ministerial Studies		✓	✓		✓	✓		✓		✓						✓			
Sports Ministry						✓													
VISUAL AND PERFORMING ARTS																			
Graphic Design, Commercial Art					✓				✓										
Theater Arts, Stage Craft				✓		✓	✓	✓									✓	✓	✓
Art, General		✓	✓	✓	✓	✓	✓	✓	✓		✓			✓				✓	
Fine, Studio Arts		✓	✓	✓			✓	✓	✓			✓				✓	✓	✓	
Art History				✓			✓												
Art Administration			✓																
Music		✓	✓	✓		✓	✓	✓	✓	✓							✓	✓	✓
Music Performance		✓	✓	✓		✓		✓	✓	✓									

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